THE FINANCIAL REPORTING OF LISTED REAL ESTATE COMPANIES IN EUROPE

2017 STUDY

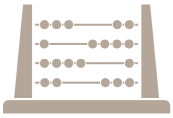
MAZARS

CONTENTS

INTRODUCTION

Rise in earnings

+9%



Increase in the fair value of the asset portfolio at constant scope

+5%

€24 bn

invested in the real estate market in France in 2016.

In 2016, real estate investment in Europe fell by 9% by comparison with 2015 to €230 billion, but the listed real estate companies in our sample nevertheless achieved excellent financial performances.

In the United Kingdom, the Brexit vote caused a fall in transactions which is reflected in the lower volumes invested in 2016 than in 2015 (-28%), as investors drifted towards Germany.

Germany thus became the leading European market, in equal first place with the United Kingdom, despite a lack of products for sale and slightly lower volumes.

In France, the real estate investment market reached a record level in 2016, close to that of 2014 and 2015, with almost €24 billion invested.

With recurrent income up by 9%, real estate companies have taken full advantage of the restructuring of their liabilities in recent years and the stabilisation of the rental market.

Further, given the downward pressure on the capitalisation rate, asset values have appreciated by 5%.

However, against an uncertain political and economic background, this positive development has not been reflected in stock market prices.

For the 7th edition of this survey, we have analysed the financial reporting of a sample of listed European real estate companies in this dynamic environment.

Marie Martins, Head of Transaction Management at Jones Lang LaSalle France, also gives us the run-down on valuation developments and investment strategies.

Enjoy your reading!

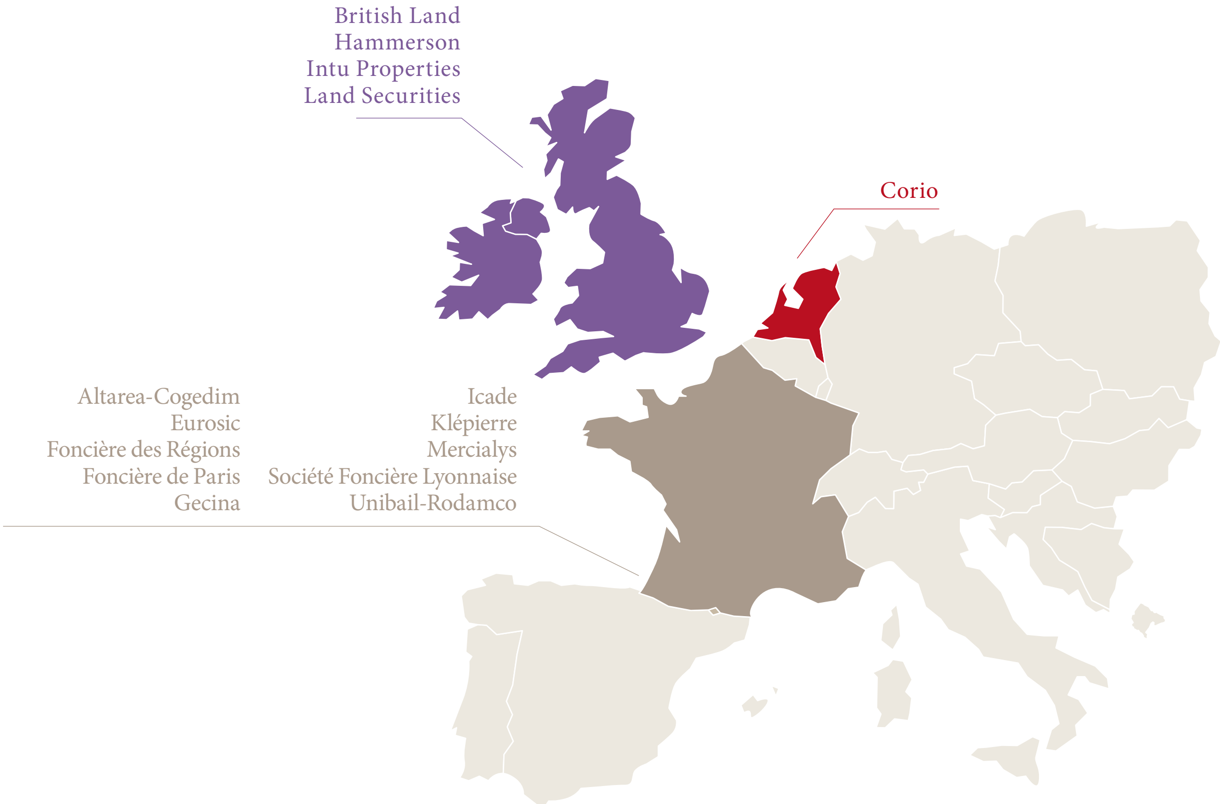
SCOPE OF THE SURVEY

Following on from our previous surveys, the aim of this review is to analyse the financial reporting of a sample of listed European real estate companies.

For this 7th edition, we have analysed the positioning of a sample of listed real estate companies and their use of key performance indicators. We have also examined the ways they report on their asset portfolios and their financing strategies.

COMPOSITION OF THE SAMPLE

Our survey covers the financial reports of thirteen listed European real estate companies[1], including the nine foremost French companies in terms of market capitalisation.



Our study is based on the 2016 annual reports and press releases of companies in the sample. For Land Securities and British Land, the results surveyed date to 31 March 2016.

1: Note that Corio and Foncière de Paris are only represented in the historical data

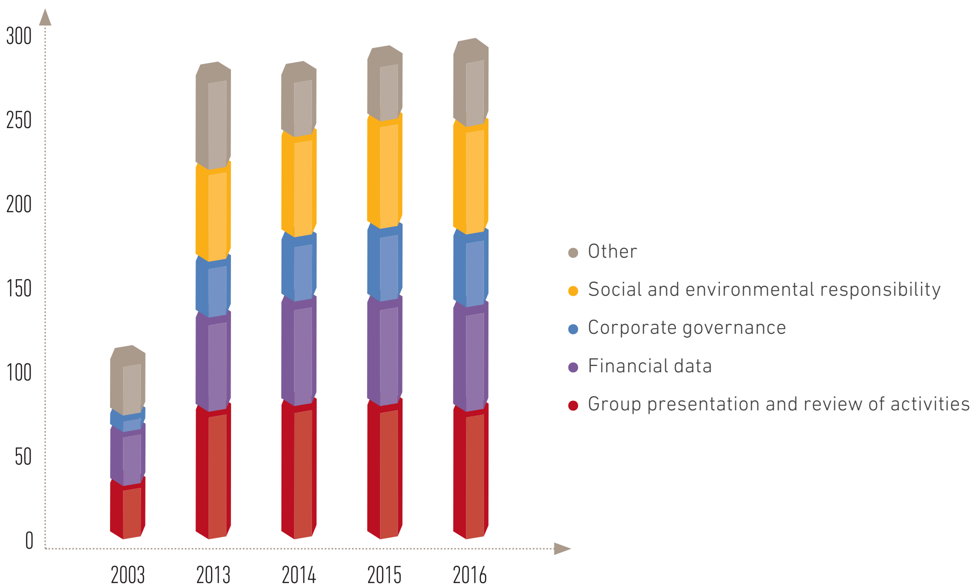
KEY DATA OF THE SAMPLE

STRUCTURE AND AVERAGE SIZE OF THE REAL ESTATE COMPANIES' ANNUAL REPORTS

After a steep rise in the average size of annual reports between 2003 and 2013 (+137%), the trend is now towards stability, with an average of 292 pages in 2016.

This year's reports confirm the trends of recent years. The chapters on business activity and financial reporting each represent 26% of the volume of the report. Information on corporate social and environmental responsibility and on governance continue to take up significant space, each accounting for around 20% in 2016.

Along with the size and the contents of the annual report, the whole structure and visual appeal has been reviewed, so that the regulatory financial report has become a vector of communication addressing the main features of companies' strategic orientations.

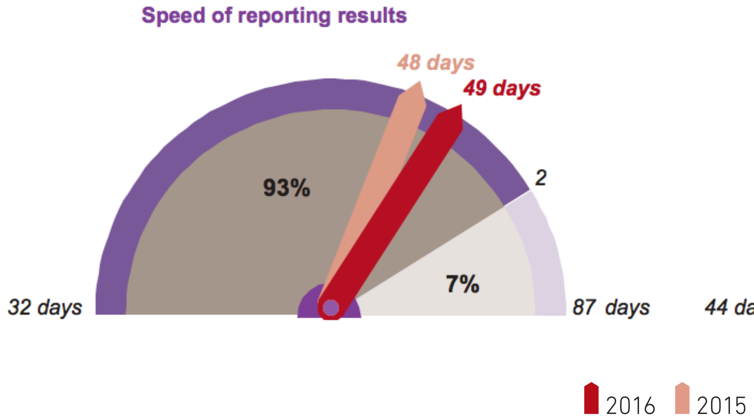


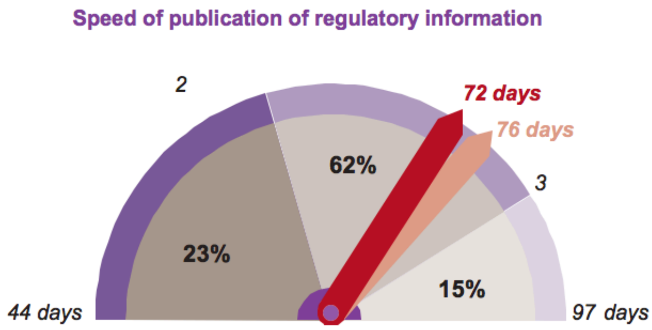
SPEED OF PUBLICATION

The thirteen real estate companies in our sample published a press release on their annual results within between 32 and 87 days, with an average of 49 days. Of the thirteen real estate companies in our sample, twelve published during the second month following the reporting date.

As in the case of the annual results, the average publication delay for the annual report is 72 days, with wide disparities across the sample.

These average timescales are very similar to last year's, and to those of entities on the STOXX Europe 50 stock market.





LIMITATIONS OF THE SURVEY

Our survey is not intended to cover the whole range of issues raised by listed real estate companies' financial reporting, or to provide any opinion as to the quality of the financial information published by the companies included in the survey.

The content of the survey and the opinions expressed therein are the sole responsibility of Mazars.

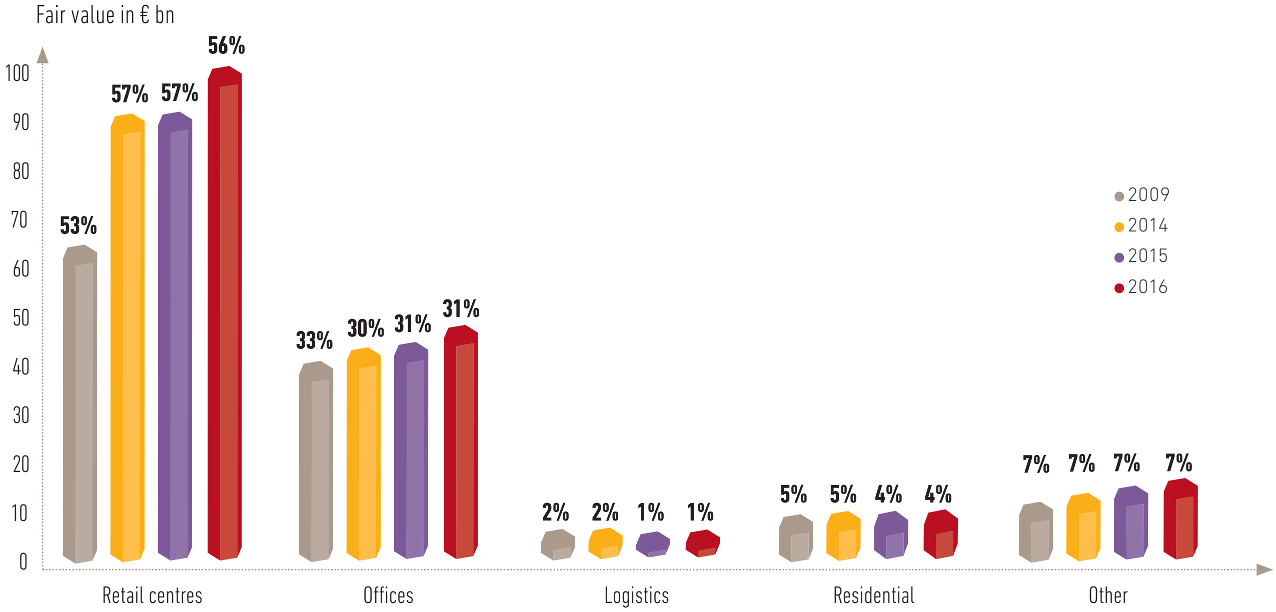
1. POSITIONING OF REAL ESTATE COMPANIES AND KEY PERFORMANCE INDICATORS

1.1. BUSINESS SEGMENT AND GEOGRAPHICAL POSITIONING

Trends in asset portfolio value by segment

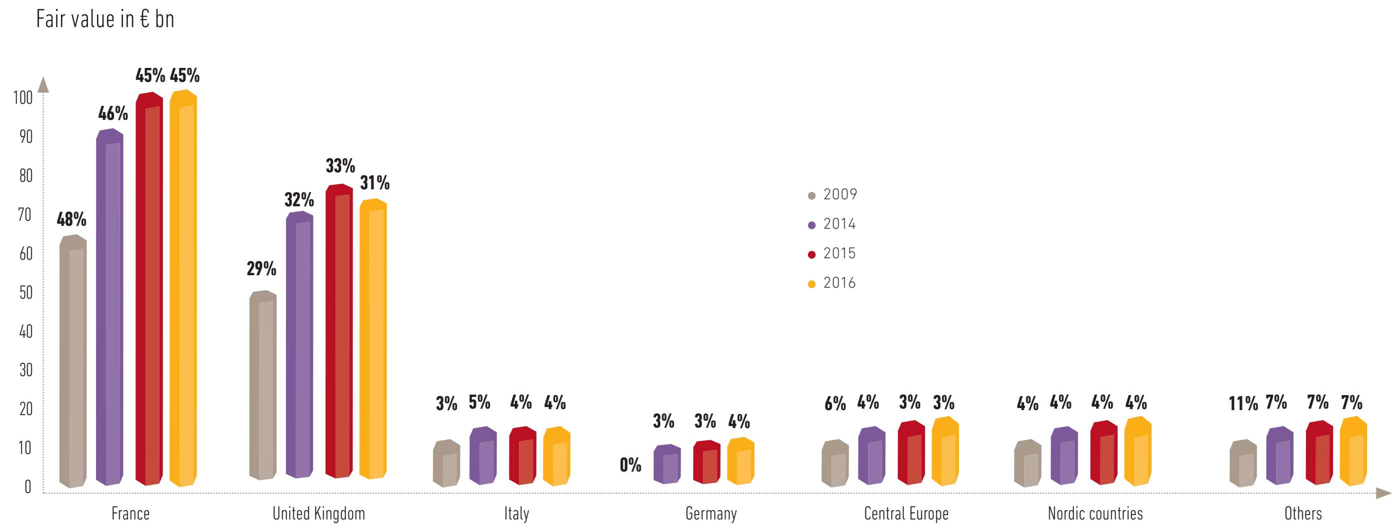
IFRS[2] 8, Operating segments, aims to standardise the presentation of segment information in financial reporting. An entity must provide information enabling users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

The graphic below presents movements in asset portfolio value by segment since 2009, the first year of application of the standard.



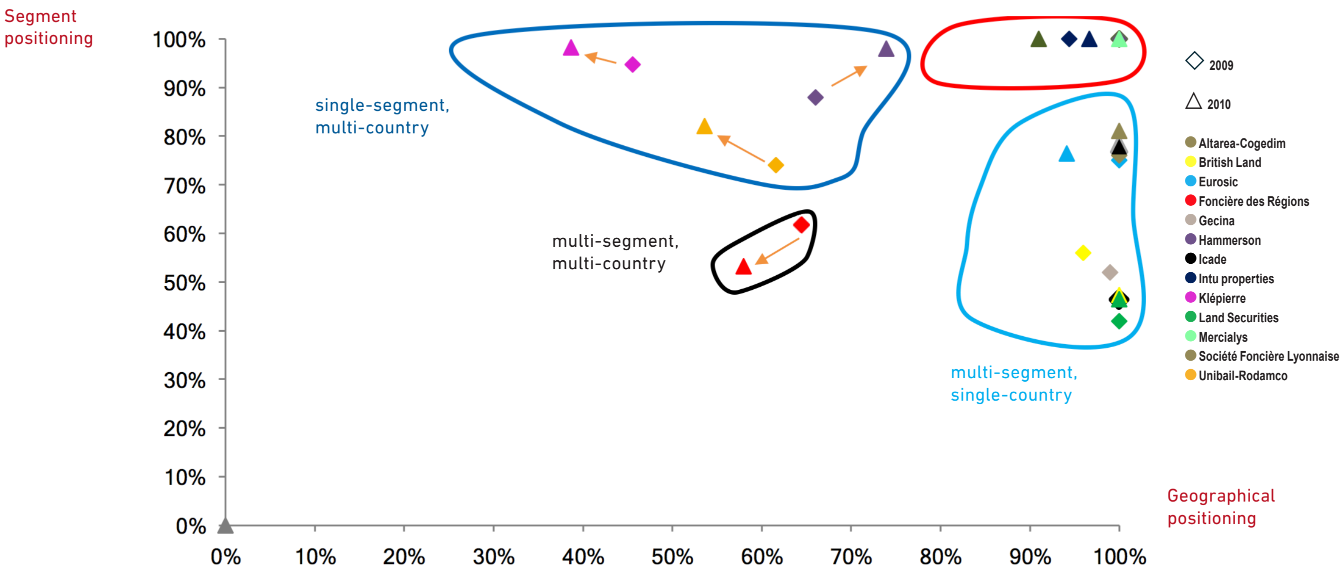
The portfolios of the sample are mainly invested in retail centres and offices, with these two sectors together representing 87% of the assets. The portfolio is stable as compared with 2015.

As would be expected given the composition of our sample, which includes nine French real estate companies and four British ones, more than 77% of the assets at fair value are located in France or the UK (compared with 80% in 2015).



2: International Financial Reporting Standards

Changes in business segment and geographical positioning



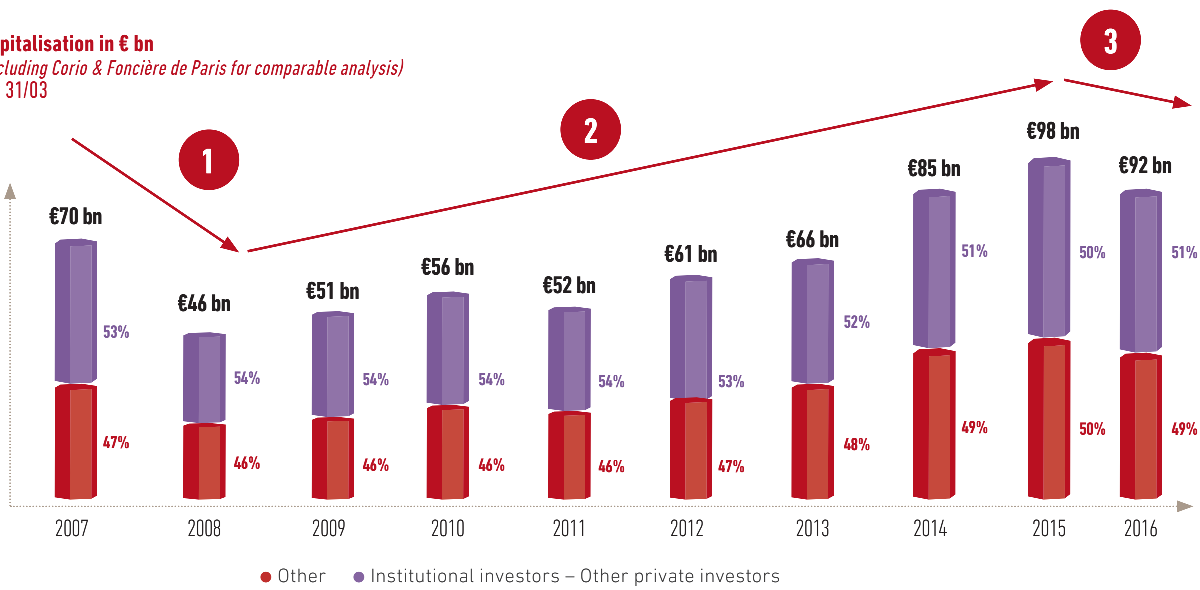
This graphic identifies the positioning of the sample on two axes, a vertical axis representing segment predominance and a horizontal axis representing presence in a country or geographical area.

The sample can be broken down into four distinct profiles:

- **A single-segment, single-country profile,** including companies such as Altarea-Cogedim, Mercialys and Intu;
- **A single-segment, multi-country profile**, including companies such as Klépierre, Unibail-Rodamco and Hammerson, which own shopping centres in several different countries and which have tended to develop a 'pure player' strategy;
- **A multi-segment, single-country profile**, including companies such as British Land and Land Securities that have a broad presence in their country across several business segments;
- **A multi-segment, multi-country profile**, represented by Foncière des Régions.

1.2 TRENDS IN MARKET CAPITALISATIONS

Market capitalisation in € bn
(Sample excluding Corio & Foncière de Paris for comparable analysis)
At 31/12 or 31/03

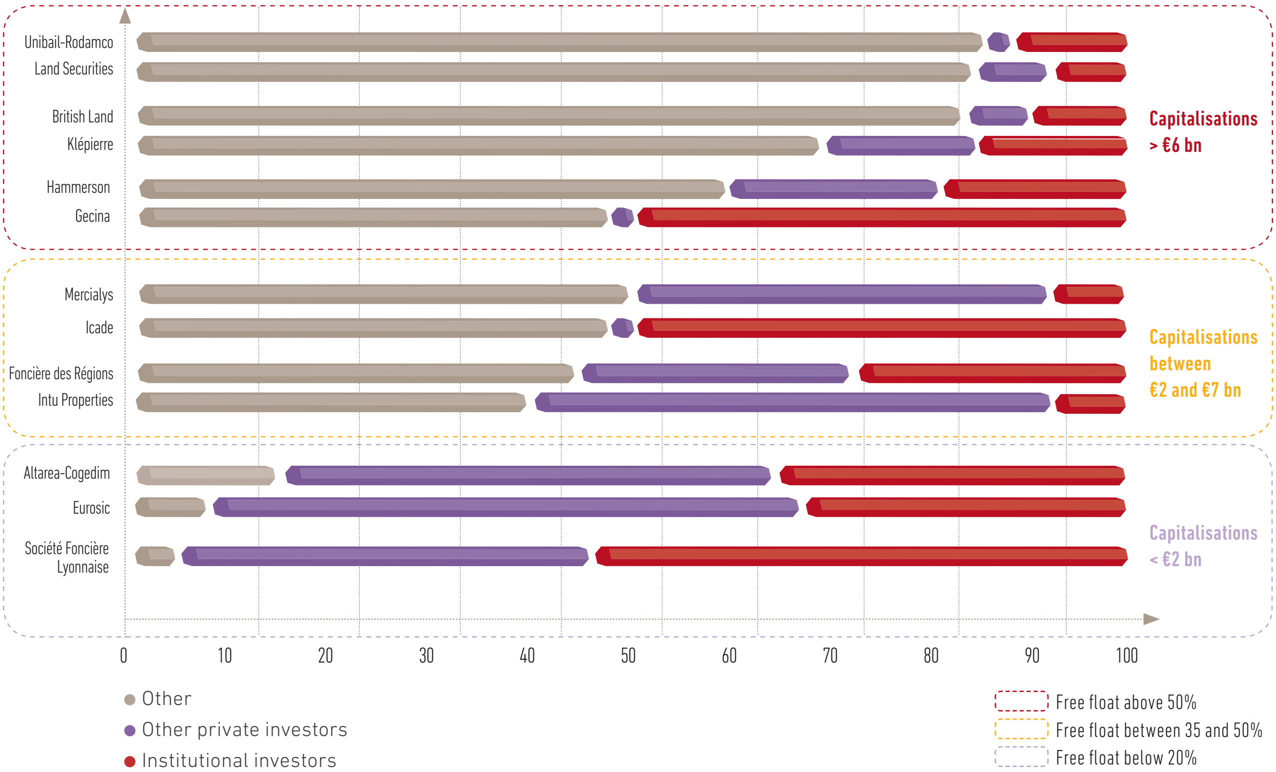


After five years of growth, market capitalisations stood at €92 billion at the end of 2016, down on the 2015 figure. This fall brings an end to a period of continuous growth (a rise of market capitalisations of 102% between 2008 and 2015).

However, it is difficult to detect a trend. This reduction does not affect all the real estate companies in our sample. Six real estate companies in the sample have seen their share capital increase, while seven have seen a fall.

1.3 SHAREHOLDER COMPOSITION AND RETURNS FOR SHAREHOLDERS

Shareholder composition

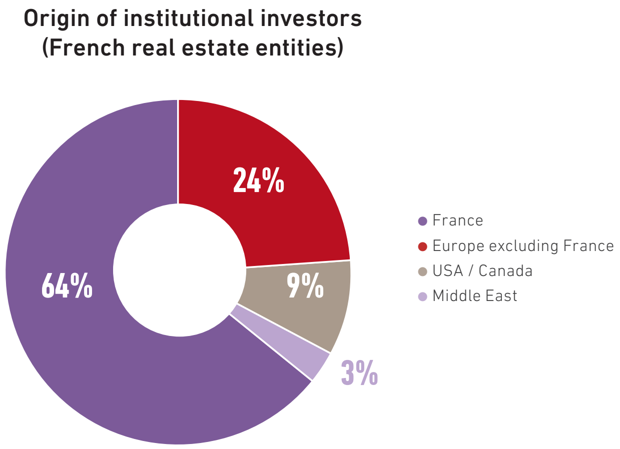


The shareholder composition has remained unchanged since the previous year.

On average, more than half of the capital of real estate companies in our panel is held by institutional investors or other private investors. Nonetheless, shareholder composition continues to differ sharply between one real estate company and the next. There are three distinct profiles of shareholder composition:

- Free float representing more than 50%, as for Unibail-Rodamco or Land Securities;
- Free float between 35 and 50% for capitalisations of between 2 and 7 billion euro;
- Finally, free float below 20% for real estate entities with market capitalisation below 2 billion euro.

It also appears that institutional investors are more inclined to invest in companies that focus on office property.

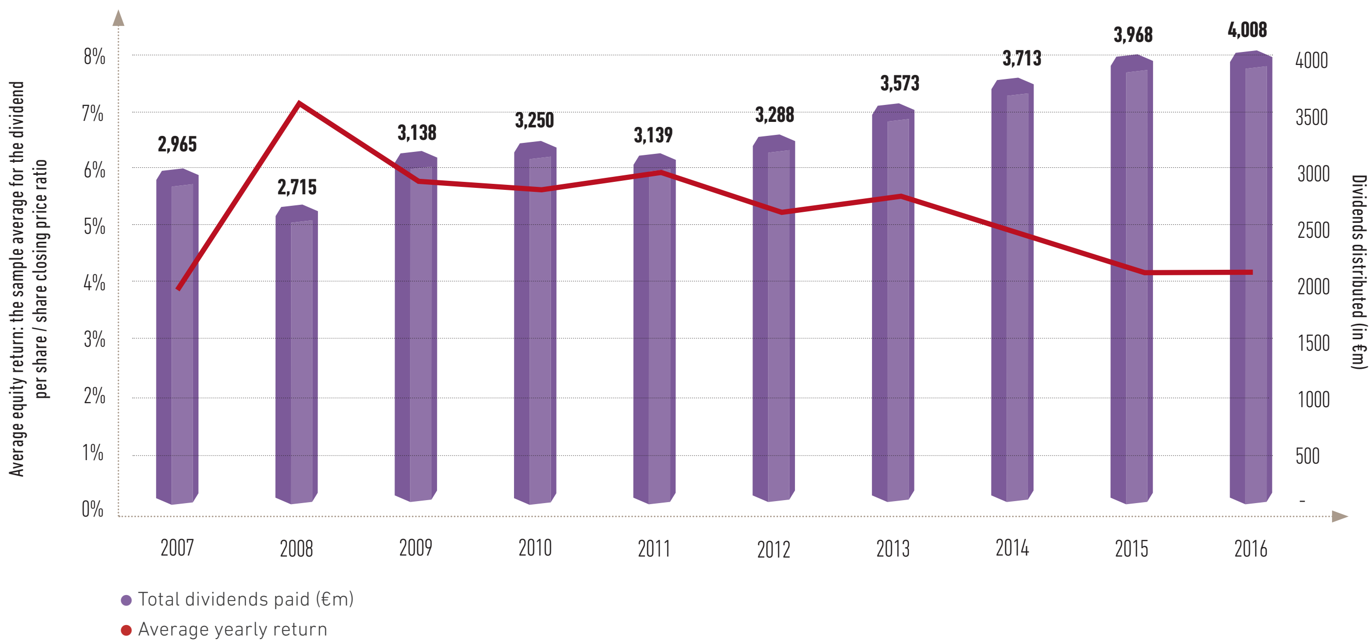


The shareholder base of the French real estate companies in our sample is primarily European, and two-thirds French; it is relatively unchanged by comparison with the previous year.

Dividends distributed and shareholder returns

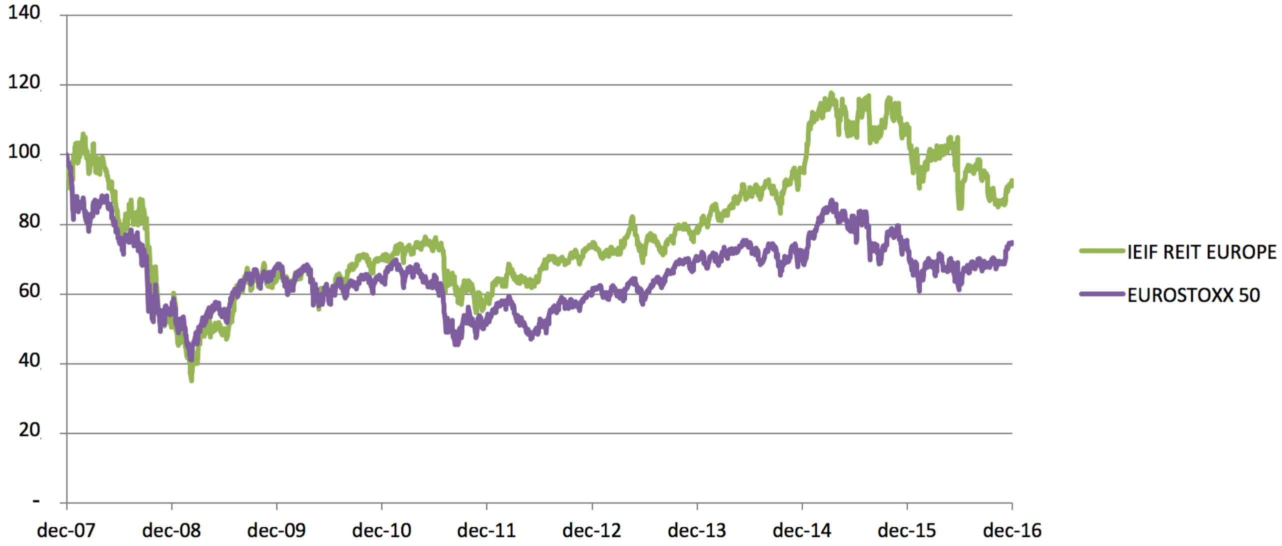
The distribution of dividends is a recurrent point in the reporting of real estate entities. These real estate companies are all REITs (Real Estate Investment Trusts), or SIICs in France; they have substantial obligations to make payments to shareholders.

The graphic below presents the cumulative amount of dividends distributed since 2007. This varies between €2.7 bn and €4 bn in 2016 and has increased steadily since 2011.

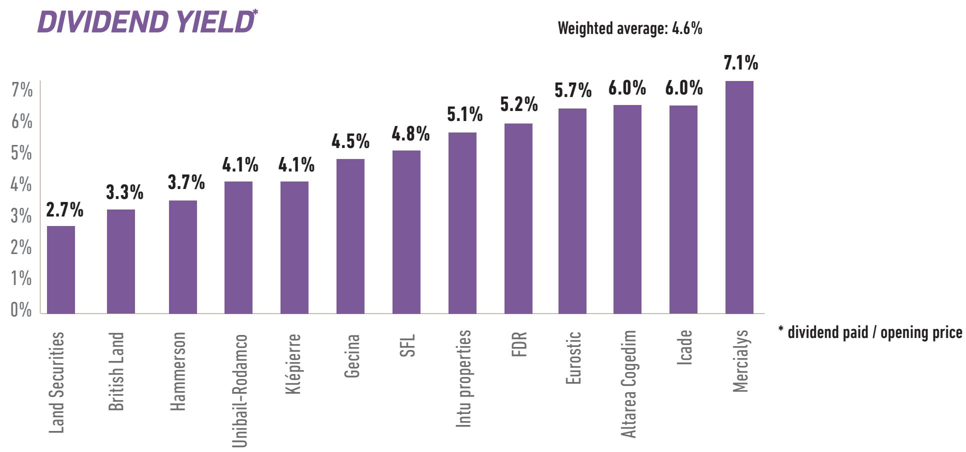


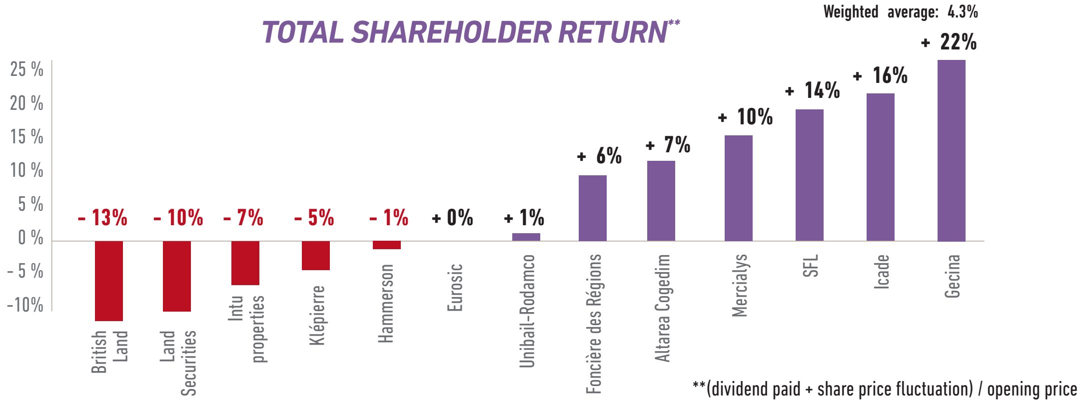
1.4 STOCK EXCHANGE PERFORMANCE AND YIELDS

The graphic below reflects the outperformance of the IEIF REIT index by comparison with EUROSTOXX 50.



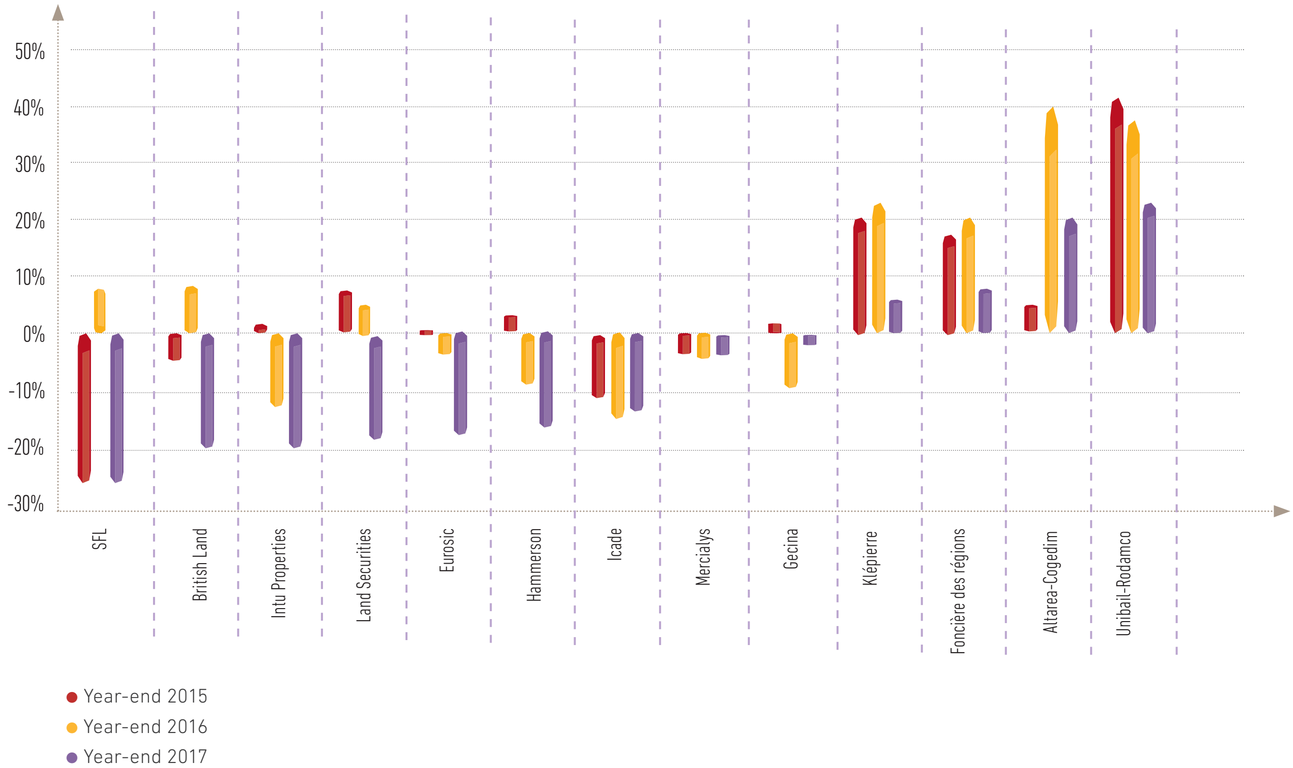
The Dividend Yield* is 4.6% as a weighted average across the sample with a narrow standard deviation of 1.3%.





Analysis of the Total Shareholder Yield ** indicator reveals a disparity between real estate companies of between -13% and 22%.

In 2014, companies in the sample were trading at a premium for the first time since 2006, and reached a premium level of +3% in 2015.



In 2016 the position was reversed, and companies in the panel are now trading at a discount level of -6% but with very diverse levels, depending on the type of assets used.

- 2014 standard deviation = **16 %**
- 2015 standard deviation = **19 %**
- 2016 standard deviation = **16 %**

Of 13 real estate companies, 11 have seen their premium decline or their discount grow, in particular in light of fears of an interest rate rise in an uncertain political and economic context.

1.5 FOLLOW-UP OF EPRA RECOMMENDATIONS

EPRA recommends that entities should provide disclosures about a number of performance indicators to promote the transparency and comparability of the financial statements of listed real estate companies in Europe.

We have found that the real estate companies in our sample have taken note of these recommendations, which the majority are following. There has been an improvement in the sample's reporting of these indicators. 12 of the 13 real estate companies are now providing information on all of the recommended indicators.

		Altarea Cogedim	British Land	Eurosic	Foncière des Régions	Gecina	Hamm-erson	Icade	Intu Prop-erties	Klépierre	Land Securi-ties	Mercialys	Société Foncière Lyonnaise	Unibail-Rodamco	2016 TOTAL	2015 TOTAL	CHANGE
Income statement	EPRA earnings		•	•	•	•	•	•	•	•	•	•	•	•	92%	92%	=
	EPRA earnings per share		•	•	•	•	•	•	•	•	•	•	•	•	92%	92%	=
	EPRA cost ratio (incl. vacancy cost)		•	•	•	•	•	•	•	•	•	•	•	•	92%	85%	↗
	EPRA cost ratio (excl. vacancy cost)		•	•	•	•	•	•	•	•	•	•	•	•	92%	85%	↗
NAV	NAV (EPRA NAV)	•	•	•	•	•	•	•	•	•	•	•	•	•	100%	100%	=
	NAV (EPRA NAV) per share	•	•	•	•	•	•	•	•	•	•	•	•	•	100%	100%	=
	Triple net NAV (EPRA NNNAV)	•	•	•	•	•	•	•	•	•	•	•	•	•	100%	100%	=
	Triple net NAV (EPRA NNNAV) per share	•	•	•	•	•	•	•	•	•	•	•	•	•	100%	100%	=
Assets	EPRA vacancy rate at period end		•	•	•	•	•	•	•	•	•	•	•	•	92%	92%	=
	EPRA net initial yield		•	•	•	•	•	•	•	•	•	•	•	•	92%	85%	↗
	EPRA "topped-up" net initial yield		•	•	•	•	•	•	•	•	•	•	•	•	92%	92%	=

1.6 TARGETS OR FORECASTS IDENTIFIED IN ANNUAL PRESS RELEASES

Based on the press releases published when the 2016 financial results were announced, we have analysed our companies' reporting on their forecasts.

		Altarea Cogedim	British Land	Eurosic	Foncière des Régions	Gecina	Hamm-erson	Icade	Intu Prop-erties	Klépierre	Land Securi-ties	Mercialys	Société Foncière Lyon-naise	Unibail-Rodamco	2016 TOTAL	2015 TOTAL	CHANGE
LTV	Quantified figure	•				•						•			23%	14%	↗
	Trend														0%	7%	↘
Earn-ings*	Quantified figure	•			•	•		•		•		•		•	54%	43%	↗
	Trend														0%	14%	↘
Trans-fers	Quantified figure				•										8%	21%	↘
	Trend					•						•		•	23%	7%	↗
Rents	Quantified figure	•	•												15%	29%	↘
	Trend				•	•			•			•			31%	21%	↗

* Earnings, net current cash flow or FFO

Despite variations in their level of disclosures, the real estate companies in our sample gave clear information about their targets and forecasts, with quantified data. 7 out of 13 real estate companies reported an earnings target.

1.7 TECHNICAL UPDATES

IAS 40 amendment

On 8 December 2016, the IASB published amendments to IAS 40 - Investment property.

The amendments clarify the principle according to which an entity should transfer an asset from (or to) the investment property category. For example, when is it possible to transfer an asset previously accounted for in Inventories?

An entity shall transfer a property if, and only if, the property meets, or ceases to meet, the definition of investment property and if there is evidence of a change in use; that is, if the property becomes, or ceases to be, an investment property within the meaning of the standard.

Note that:

- a change in management intentions does not in itself constitute evidence of a change in use;
- the list of indicators in paragraph 57(a) – (d) is maintained, but is now clearly designated as a non-exhaustive list.

The amendments are effective for periods beginning on or after 1 January 2018. Early application is possible.

In terms of transitional arrangements, entities shall apply these amendments to changes in use that occur after the beginning of the annual reporting period of first application.

Retrospective application is also permitted if that is possible without the use of hindsight.

IFRS 9

These three standards were not applicable to the 2016 year end.

IFRS 9, endorsed in July 2014, concerns financial instruments and will replace IAS 39 on 1 January 2018. IFRS 9 brings changes in the following areas:

Phase 1 – Classification and measurement of financial assets: new rules for the classification of financial assets and new methods of optionally accounting for financial liabilities at fair value in profit or loss.

Phase 2 – Impairment: earlier recognition of credit losses due to the provisioning of expected credit losses as from the granting of a loan

IFRS 9 provides a simplified approach for trade receivables and lease receivables. Under article 5.5.15b, the impairment of a lease receivable can be estimated at any time at an amount equal to lifetime expected credit losses, without any conditions attaching to this option other than that the approach must be applied permanently. This is a dual choice of accounting principles, as it may be applied in a differentiated way to finance and operating lease receivables.

This option seems very natural for operating leases, where the term of the receivables is generally less than 12 months. Opting for lifetime losses at any time would greatly facilitate the operational monitoring of impairment under IFRS 9, since for a receivable due within one year, the expected credit loss for the coming 12 months and the lifetime credit loss will be the same.

Finally, this option does not require entities to monitor the credit quality of lessees, and avoids the need either to store the original rating in their systems or to define what constitutes a significant increase in credit risk since inception.

Phase 3 - Hedge accounting: easing the pre-requisites for the application of hedge accounting

IFRS 9 eases the application conditions for hedge accounting and introduces a number of new developments that improve the reconciliation of accounting treatment with a real estate entity's management methods.

IFRS 9 is also currently the subject of deliberations regarding debt renegotiation. The accounting treatment of a debt that is modified or exchanged, where the modification does not result in the derecognition of the debt, may change on application of IFRS 9 in line with the new paragraph (5.4.3) on the modification of assets. This new paragraph states that the renegotiation or modification of a financial asset without derecognition should be accounted for as a change in the estimate of contractual cash flows. In this case, an impact in profit or loss is recorded to cover the difference in expected cash flows discounted at the EIR of origin. The IFRS IC has been asked to consider whether this treatment of assets should also be applied to renegotiated liabilities under IFRS 9.

IFRS 15

IFRS 15 - Revenue Recognition will be of mandatory application to current financial periods from 1 January 2018.

This standard will replace IAS 11 - Construction contracts, IAS 18 - Revenue and all the associated interpretations.

IFRS 15 will have little impact on the consolidated accounts of listed real estate companies, since leases, which are currently subject to IAS 17, shortly to be replaced by IFRS 16, are clearly excluded from the scope of IFRS 15.

IFRS 16

Finally, IFRS 16 will be of mandatory application to current financial periods at 1 January 2019. However, its application can be brought forward to coincide with the effective date of IFRS 15.

This standard will have a significant impact on lessees, in particular on the presentation of their financial statements, due to the introduction of a single lessee accounting model and to the necessity for an in-depth analysis of the contract terms.

For lessors, the standard does not significantly modify the accounting model for leases. The quantity of notes, however, is likely to grow. This is because additional quantitative and qualitative disclosures must be provided to enable users to better understand the impact of leases on the financial statements, performance and cash flows.

AMF recommendations

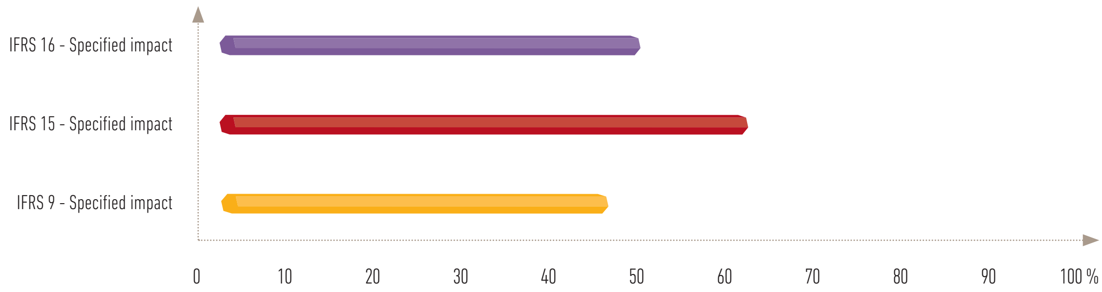
The topics addressed this year include financial performance aggregates, the impact of the referendum in the United Kingdom and the new accounting standards.

On the subject of new accounting standards, the AMF has established the principles for sound information:

A gradual approach to the presentation of disclosures between now and the date the new standards come into force, with:

- Increasingly detailed information, including qualitative disclosures mentioning the accounting options adopted, and quantitative disclosures with a distinction by nature of impact, contract type and the expected impacts on the aggregates used in financial reporting
- Quantitative information when the impact is significant, no later than the half-yearly reporting date before the standard becomes effective. This is 30 June 2017 for IFRS 15 and IFRS 9
- The requirement for disclosures by IAS 8 on the new texts that have been published but are not yet in force and are not applied early, with the mention of this fact and the reporting of information that is known or that could reasonably be estimated concerning the possible impact of the application of the new IFRS on the entity's financial statements during the first application period.

Reporting of real estate entities on the impacts of IFRS 9, 15 and 16



At 31 December 2016, most companies in our sample provided information on IFRS 15 and IFRS 9, but without specifying the expected impact.

Two real estate entities in our sample provided information on all three of the standards mentioned. An example is shown below:

3.5.2.1. Reporting standards

The consolidated financial statements of Gecina and its subsidiaries ("the Group") are prepared in accordance with IFRS as adopted by the European Union on the balance sheet date.

The official standards and interpretations potentially applicable after the closing date (particularly IFRS 15 "Revenue from contracts with customers", IFRS 16 "Leases" and IFRS 9 "Financial instruments") were not applied early and should not have a significant impact on the financial statements.

Excerpt from the 2016 Annual Report – Gecina

2. FINANCIAL REPORTING ON ASSET PORTFOLIOS

2.1 Valuation of investment property

2.2. Table of changes in the property portfolio

2.3. Assets held for sale

2.4. Development assets

2.5. Concentration of tenants

2.6. Disclosures on leases

2.7. Disclosures on rents

2.8. Disclosures on credit impairment rules

5 QUESTIONS FOR

MARIE MARTINS,
REGIONAL DIRECTOR
HEAD OF TRANSACTION MANAGEMENT
JONES LANG LASALLE FRANCE

How have appraisal values changed during the 2016 financial year?

In general terms, appraisal values have increased sharply during 2016, by the order of 5-15 % over the course of the year. That reflects the dynamism of the market and the significant volume of capital available among all investors, French and foreign. Furthermore, low-cost financing conditions have been very favourable for several months.

In 2016, 80% of investment transactions were driven by French investors, largely by real estate entities and insurance companies. The appetite of investors has been such that we appraisers have had to stay in daily contact with marketing teams to grasp the developments in the different markets. This is because, while appraisers should always rely on completed transactions, several months can go by between the start of negotiations and the signature of the sale contract. So experts have to look at how market conditions at the appraisal date may have changed since the last transactions they were aware of. Consequently, pre-contracts in the process of signing can be useful when considering the real estate valuation of investors' assets.

What should we take from the most recent appraisal campaigns at 30 June 2017, in particular in terms of rates of return?

Since the first half of 2017, we have identified a two-speed property market: the market in "core" or "core-plus" assets, which are still sought-after by investors with a lot of capital to place, and the "value added" asset market.

If investors are returning to second quality assets, or those requiring asset management efforts, they are still taking a cautious approach to acquisition prices, and reflect the risk in the yields.

In the last appraisal campaigns at 30 June 2017, we therefore pursued a squeeze on yields for the most sought-after assets - those with secured rental flows, a good location and sound tenants.

However, we have maintained the yields on second-quality or "value added" assets.

As well as assets in the office, retail, logistics and health sectors, over the last two years we have found new asset classes being targeted by investors: serviced residences for seniors and students. Despite belonging to an investment niche, the yields on these asset classes have also been squeezed in recent months: around 50 bps in the last 12 months.

Is there likely to be a decline in values between now and the end of 2017?

Although OAT rates (10-year CMT) rose at the start of the year, suggesting that interest rates would rise and lead to a growth in yields through a domino effect, the spread between "prime" yields and lending rates is still wide. What's more, the OAT curve has taken a downward turn in the past several months. So we don't think that there will be any rise in yields for "core" assets.

However, it's difficult to anticipate what changes in value there might be in six months' time, because even if forecasts of economic conditions in France are right, it's not easy to second-guess future property tax reforms, or the impact of Brexit, which is still to come, or the consequences of US economic policy and how it will affect the European and French economies.

In the case of the office property market, we have seen rental support measures decline in recent months, while market rents have risen slightly in segments where there's a scarcity. Thus, in the best segments, economic rents are higher than in recent months, or the same.

In other words, we do not think that there will be a correction at the end of the year, and we are confident that there will be a stabilisation for this type of assets, if they are of good quality.

Do recent and forecast mergers reflect the scarcity of assets in the market?

We do not think that recent mergers immediately reflect the scarcity of assets on the market, but rather a change of strategy by major real estate companies and by entities more generally that want to expand and put pressure on the international markets.

These mergers will enable entities to acquire a stronger position and to focus on more active growth in the European markets, as has already been the case for a few years now. It's also an opportunity for these new real estate groups to diversify their real estate portfolios by focusing on "value added" assets, or on operating assets such as those in the health and social segments (hospitals, long-term care homes, rehabilitation centres), as well as tourist accommodation and serviced residences for seniors and students, Europe-wide.

Are we seeing the emergence of new investment strategies, especially in terms of risk-taking?

Very much so. While 2014 and 2015 saw investors preferring to concentrate on "core" assets against an uncertain economic background, since the start of 2016 we have found a renewed appetite for risk. This is connected with greater certainty about the situation economic in France, with forecast growth passing from 1.2 % at the start of 2016 to more than 1.6 % at the end of 2017. Business confidence has been rising for almost a year and we are seeing job creation in the services sector again. These convergent factors are reassuring investors and encouraging them to turn to more risky assets with higher yields. ■

2.1. VALUATION OF INVESTMENT PROPERTY

Choice of accounting model (IAS 40)

	Altarea-Cogedim	British Land	Eurosic	Foncière des Régions	Gecina	Hammerson	Icade	Intu Properties	Klépierre	Land Securities	Mercialys	Société Foncière Lyonnaise	Unibail-Rodamco
Fair value	•	•	•	•	•	•		•	•	•		•	•
Amortised cost							•				•		
Justification of choice of amortised cost model							•				•		

According to IAS 40, investment property may be accounted for using either the fair value model or the amortised cost model.

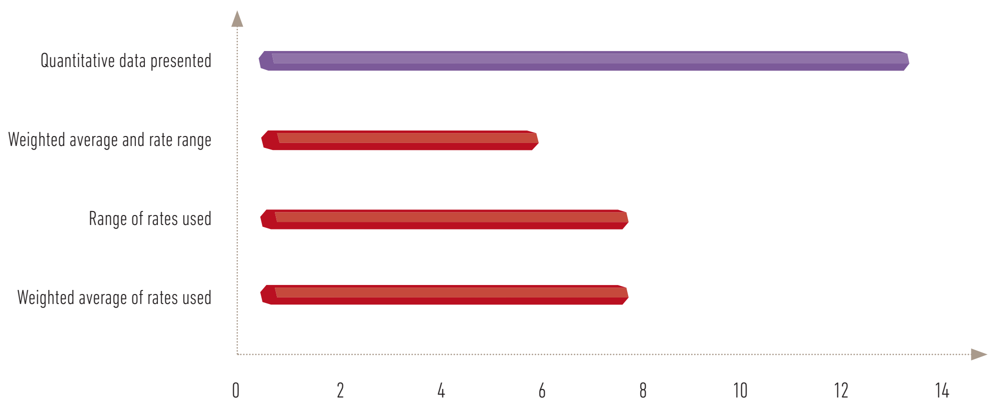
EPRA recommends that real estate companies should measure investment property at fair value, or to justify their use of the amortised cost model

11 of our 13 real estate companies opted for the fair value model, Klépierre adopting this approach from the second half 2016.

Under IFRS 13, a three-level hierarchy is used to classify the inputs used in valuations:

- **Level 1:** the estimation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities available at the measurement date;
- **Level 2:** the estimation is based on inputs that are directly or indirectly observable in active markets other than the level 1 quoted prices;
- **Level 3:** this level is based on inputs that are unobservable in an active market.

IFRS 13: unobservable quantitative data



All the real estate companies that give this information (12 of 13 in the sample) chose the Level 3 fair value category, using inputs that are unobservable by property appraisers such as certain market-based rental values. yields, capitalisation and discount rates.

The number of issuers reporting on the range of rates used has risen slightly, 60% of the sample now reporting this information, compared with less than 50% last year.

Additionally, almost half of issuers publish both a range of rates and a weighted average.

As in our previous review, we recommend issuers only publishing rate ranges to give the weighted averages, which are more representative of a diversified portfolio.

		Initial capitalisation rate[a]	Rent in € per m²[b]	Discount rate[c]	Capitalisation rate at exit[d]	Average annual growth rate of net rental income[e]
France	Maximum	8.4%	782	8.2%	7.3%	6.0%
	Minimum	3.9%	94	5.4%	3.8%	1.5%
	Weighted average	**4.7%**	**377**	**5.9%**	**4.4%**	**2.8%**
International	Maximum	6.7%	404	7.3%	6.7%	2.2%
	Minimum	5.6%	187	7.0%	5.5%	1.6%
	Weighted average	**6.3%**	**309**	**7.1%**	**6.0%**	**1.9%**

(a) The initial capitalisation rate is the net rental yield relative to the appraisal value excluding transfer duties.
(b) Annual average rent (minimum guaranteed rent and variable rent) per asset and m².
(c) Rate used to discount the future cash flows.
(c) Capitalisation rate to discount the income in the exit year to calculate exit value.
(e) Average Annual Growth Rate (AAGR) of net rental income.

Excerpt from the 2016 Annual Report – Altarea Cogedim

IFRS 13: sensitivity tests

The EPRA Position Paper on IFRS 13 recommends that entities provide a sensitivity analysis for the inputs used. Further, the AMF also recommends conducting sensitivity tests on the main inputs used by appraisers (yields, rental value and occupancy. See position/recommendation no 2010-18).

Sensitivity testing of key parameters is carried out in order to assess the volatility of asset valuations.

Several real estate companies made no disclosures on this topic, though it is a key issue for investors and regulators.

Scenarios for testing the sensitivity of valuations (Val) to changes in rates of return (R)

	Altarea Cogedim		Eurosic		Foncière des Régions		Gecina		Hammerson	
	Change R	Val. change	Change R	Val. change	Change R	Val. change	Change R	Val. change	Change R	Val. change
Scenario 1	+25 pbs	-4.32%	+500 bps	-3.6%	+50 bps	9,61%	+50 bps	-9,6%	+25bp	-3,29%
Scenario 2	-25 pbs	+4.84%	-500 bps	+4.51%	-50 bps	-7,95%			-25bp	7,62%
Scenario 3										
Scenario 4										
Scenario 5										
Scenario 6										
Scenario 7										
Scenario 8										

	Klépierre		Land Securities		Mercialys		Société Foncière Lyonnaire		Unibail-Rodamco	
	Change R	Val. change	Change R	Val. change	Change R	Val. change	Change R	Val. change	Change R	Val. change
Scenario 1	+10 bps	-2%	+25 bps	-5.6%	-50 bps	-7.72%	+25bp	> -7%	+25 bps	-5.4%
Scenario 2			-25 bps	6.1%	+50 bps	+9.22%	-25bp	< 7%	-25 bps	+6%
Scenario 3									+50 bps	-10%
Scenario 4									-50 bps	+13%
Scenario 5									+100 bps	-19%
Scenario 6									-100 bps	+30%
Scenario 7									+150 bps	-26%
Scenario 8									-150 bps	+52%

(1) Change combined with a +10% change in rental income

(2) Combined with a change in rental income of -10

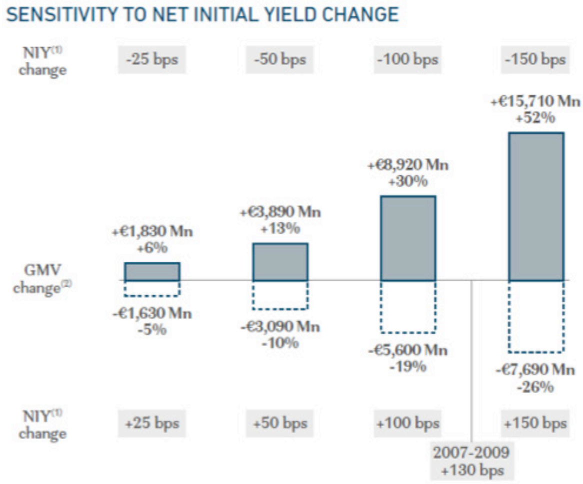
10 real estate companies test the sensitivity of valuations to changes in yields. The number of scenarios and the level of stress vary considerably from one company to the next.

In the absence of any requirement in the standard, the tests conducted by those companies that do carry them out are very varied, and demonstrate limited impacts on valuations in the order of +/-5%, depending on the scenarios applied.

Further, the stress scenarios make no use of indicators such as the loan to value ratio (LTV). This would illustrate a real estate company's capacity for resilience in the event of a reduction in values.

Sensitivity

A change of +25 basis points in net initial yield, which represents the main output of the appraisal models, would result in a downward adjustment of -€1,630 Mn (or -5.4%) of the shopping centre portfolio value (excluding assets under development or accounted for using the equity method), including transfer taxes and transaction costs.



Excerpt from the 2016 Annual Report – Unibail-Rodamco

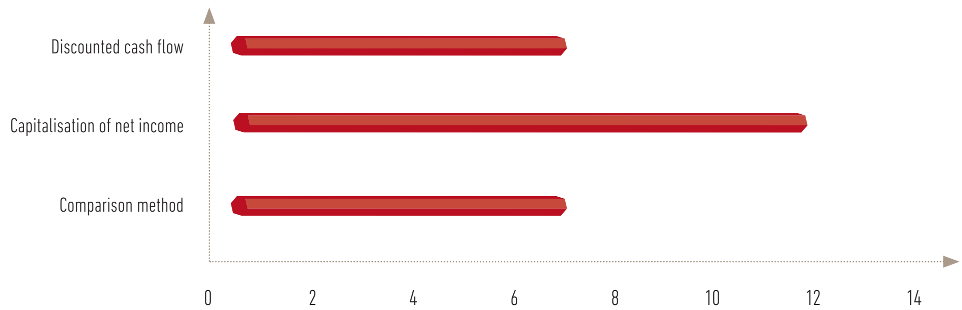
The sensitivities illustrate the impact of changes in key unobservable inputs (in isolation) on the fair value of the Group's properties:

							2016
Sensitivities		**Impact on valuations of 5% change in estimated rental value**		**Impact on valuations of 25 bps change in equivalent yield**		**Impact on valuations of 5% change in costs**	
	Market value £m	**Increase £m**	**Decrease £m**	**Decrease £m**	**Increase £m**	**Decrease £m**	**Increase £m**
Total Retail Portfolio (excluding developments)	**5,560.4**	**240.4**	**(236.2)**	**292.1**	**(286.9)**	**6.3**	**(6.6)**
Total London Portfolio (excluding developments)	**5,978.6**	**241.7**	**(240.8)**	**396.5**	**(348.9)**	**20.8**	**(21.2)**
Developments: income capitalisation method	**1,293.2**	**40.7**	**(40.5)**	**95.2**	**(81.2)**	**2.1**	**(2.1)**
Market value – Group	**12,832.2**						

Excerpt from the 2016 Annual Report – Land Securities

Valuation method used

All the real estate companies in the sample provided disclosures on the valuation methods used by their appraisers.



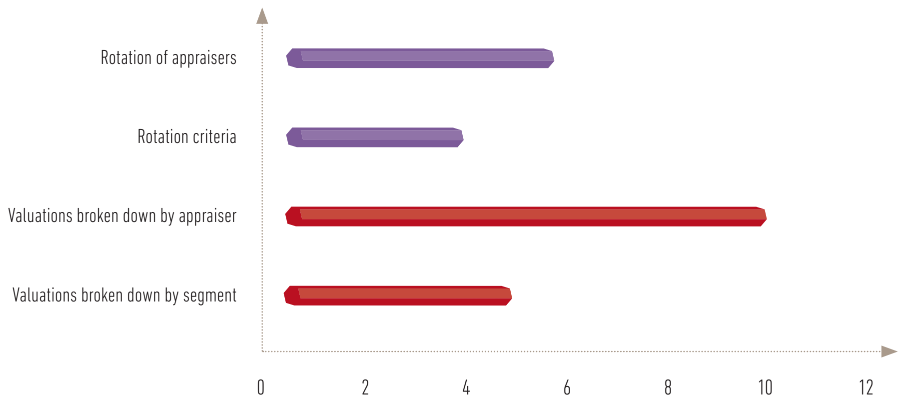
Of those companies that used several methods, very few presented disclosures on the method used to calculate fair value (preferential method, arithmetic mean, or other): of the 11 real estate companies using more than one method, only 2 indicated how they had calculated fair value.

Disclosures on appraisals

EPRA recommends:

- the use of external appraisers at least once a year;
- disclosure of the names of the appraisers used;
- the basis for the appraiser's fees should not be related to the type of asset valued;
- disclosure of the fees paid to appraisers (other than those paid for the annual valuations);
- the identification of appraisers whose fees account for more than 10% of their turnover.

The AMF and EPRA recommend **disclosures on appraisers,** including the frequency of rotation and the level of their fees.



Six real estate companies reported the frequency with which appraisers are rotated, and four indicated the criteria applied. Five disclosed appraisals by asset type (compared with two last year).

The rotation criteria used by real estate companies are very varied. In our sample, the main criteria are as follows:

- Rotation for a portion of the asset portfolio each year;
- Rotation after a set number of valuations;
- Rotation for each asset after a given period (generally between 3 and 7 years).

At three of the companies, a single appraiser is responsible for valuing more than 60% of the asset portfolio. A single appraiser is responsible for valuing on average 51% of the asset portfolio

Example of disclosures provided on appraisers:

Valuation method

The Group's entire property portfolio was valued at 31 December 2016 by CBRE, Jones Lang LaSalle and BNP Paribas Real Estate.

The valuations were performed in accordance with the *Charte de l'Expertise en Evaluation Immobilière* (property valuation charter) included in the February 2000 report of France's securities regulator (COB, renamed AMF), and also complied with the standards issued by The European Group of Valuers' Associations (TEGoVA) as well as with Royal Institution of Chartered Surveyors (RICS) standards.

Independent experts are rotated in compliance with the SIIC code of ethics, which states:

"Regardless of the number of independent experts used by the SIIC, the following principles must be upheld:

– Appointments should be based on a selection process evaluating each candidate's independence, qualifications and competency to value property within the asset classes and geographical locations concerned.
– When a firm of valuers is used, the SIIC should ensure that the firm's internal valuation teams are rotated after a period of seven years.
– An independent valuer may serve for no more than two four-year terms for any given client, unless that valuer is a company in which case the above team rotation rule applies."

The Group's portfolio is appraised at half-yearly intervals by a group of three independent firms, each of which is responsible for valuing part of the total portfolio as follows (the percentages below are determined by reference to the total value of the properties, excluding transfer costs):

– CBRE: 34%
– Jones Lang LaSalle: 25%
– BNP Paribas Real Estate: 41%

The firms ensure that their internal teams are rotated as required. In addition, certain properties are assigned to different valuers each year to ensure a gradual rotation of assets among them.

Excerpt from the 2016 Annual Report – Société Foncière Lyonnaise

Disclosures **on fees paid to appraisers:**

	Altarea-Cogedim	British Land	Eurosic	Foncière des Régions	Gecina	Hammerson	Icade	Intu Properties	Klépierre	Land Securities	Mercialys	Société Foncière Lyonnaise	Unibail-Rodamco
Valuation fees agreed in advance of the valuation			•				•	•				•	•
Valuation fees independent of the asset valuation	•		•	•	•	•	•	•				•	•
Fixed fee for each asset valued	•		•	•		•		•				•	•
Fees paid to appraisers			•					•	•	•		•	•
Fees broken down by appraiser								•					
No criterion reported		•									•		

Although disclosures on fees remain varied, EPRA's recommendations are broadly followed by companies in the sample, since all make use of external firms twice annually, and all disclose their names.

Example of disclosure on appraisers' fees:

1.9.4. Appraiser remuneration at Foncière des Régions level

Appraisers (€ –100% – excl. tax)	Total 2016	(%)
CBRE	569,868	21%
DTZ	529,050	19%
JLL	535,400	20%
BNP Real Estate	581,110	21%
VIF	226,985	8%
YARD Valltech	190,000	7%
REAG	80,000	3%
MKG	6,050	0%
CFE	900	0%
TOTAL	**2,719,363**	**100%**

The annual fees billed to Foncière des Régions and to Foncière Europe Logistique are determined before the appraisal year. They account for less than 10% of the revenues of each appraisal company. The rotation of the appraisers is organised by the two companies. We have not identified any conflict of interest in this appraisal.

Excerpt from the 2016 Annual Report – Foncière des Régions

The principle applied by the Group is a rotation of appraiser for each asset every four years. On December 31, 2016, seven appraisal firms evaluated the Group's portfolio: Catella, CBRE, Crédit Foncier Expertise, Cushman&Wakefield, Euroflemming, Knight Frank and Quadral Expertise. The appraisal fees recognized for 2016 amounted to €0.8 million for the Eurosic Group.

The real estate appraisers' fees are fixed in the form of a flat rate per asset upstream of the valuation campaigns and are not based on the value of the assets appraised.

Excerpt from the 2016 Annual Report – Eurosic

2.2. TABLE OF CHANGES IN THE PROPERTY PORTFOLIO

As in the previous year, 100% of the sample provided a table showing changes in the investment property portfolio.

Although EPRA recommends that the line item 'Property additions' should be broken down into the different entry types (acquisitions, expenditure and business combinations), this level of granularity is not consistently provided by the real estate companies in the sample:

ENTITIES MEASURING THE PROPERTY PORTFOLIO AT FAIR VALUE

	Altarea-Cogedim	British Land	Eurosic	Foncière des Régions	Gecina	Hammerson	Intu Properties	Land Securities	Société Foncière Lyonnaise	Unibail-Rodamco	Klépierre
Property additions	•	•	•	•	•	•	•	•	•	•	•
Acquisitions		•	•		•	•	•	•		•	
Investments								•			•
Expenditure		•	•			•		•		•	
Disposals	•	•	•	•	•	•	•	•		•	•
Transfers	•	•	•	•	•	•	•	•		•	•
Net impairment/termination of project	•	•									
Assets held for sale			•		•			•			•
Changes in scope	•	•	•	•		•	•			•	•
Inflows		•	•	•		•				•	
Disposals							•				•
Other changes	•	•	•	•	•	•	•	•	•	•	•
Changes in fair value	•	•	•	•	•	•	•	•	•	•	•
Reclassification and transfers of category	•	•	•	•	•	•		•		•	•
Exchange rate variations						•	•			•	•
Other	•	•		•	•	•		•		•	•

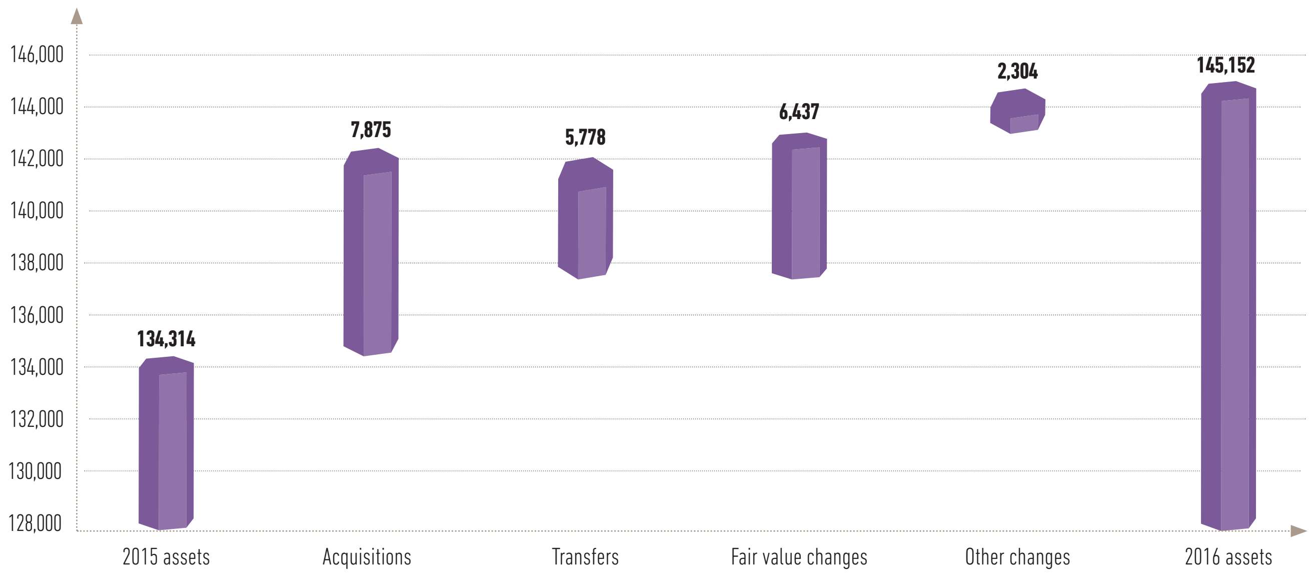
ENTITIES MEASURING THE PROPERTY PORTFOLIO AT AMORTISED COST

	Icade	Mercialys
Property additions	•	•
Acquisitions and works	•	
Acquisitions, creations, contributions		
Property additions and other acquisitions		•
Disposals	•	•
Transfers	•	
Transfers and retirements		
Changes in scope	•	
Amortisation	•	•
Impairment	•	
Other changes	•	•
Exchange rate variations		
IFRS 5 impact		•
Transfers		
Other	•	•

The parameters for these disclosures depend on the method chosen for accounting for investment property (amortised cost or fair value).

Real estate companies opting for the fair value model

The value of the asset portfolio of real estate companies opting for the fair value model rose from €134 314 million to €145 152 million at the 2016 reporting date:



The fair value of investment property has risen by 4.8%, which can be explained by the preponderance of prime assets and the downward pressure on yields in 2016.

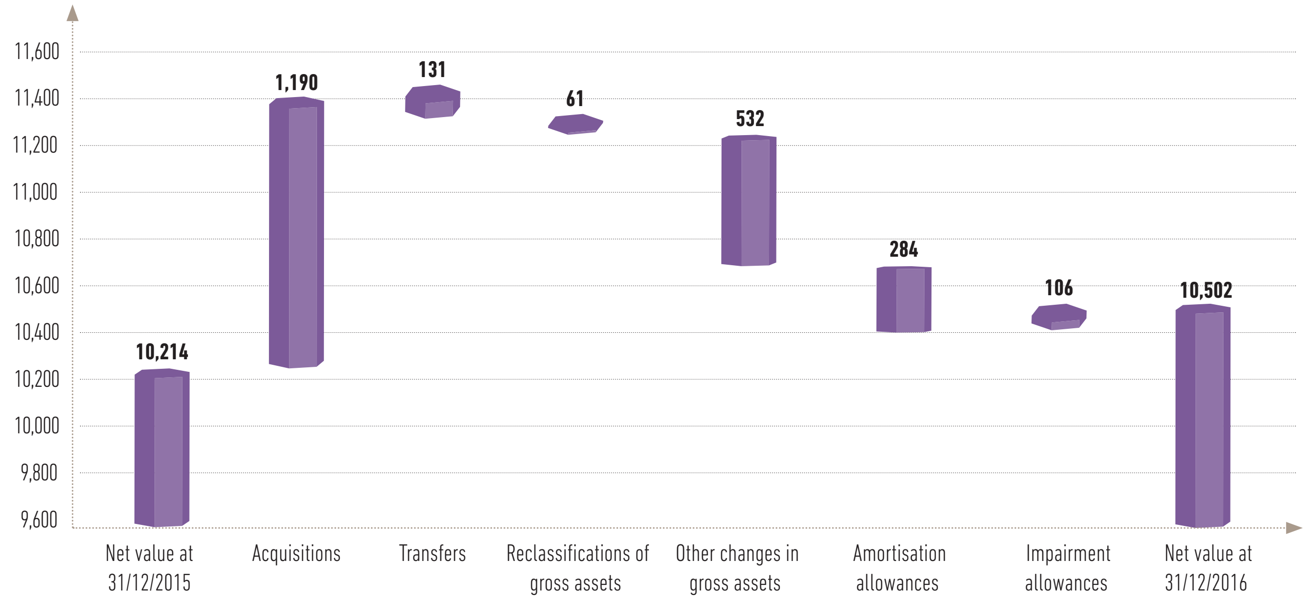
The yield on 10-year OAT Treasury bonds fell from 2.5% in 2013 to 0.5% in 2016.

The other changes mainly relate to acquisitions and transfers over the financial year.

Like last year, all the real estate companies in our sample were net investors in 2016. Total asset acquisitions stood at €7.9 billion.

Real estate companies opting for the amortised cost model

The value of the asset portfolio of real estate companies opting for the amortised cost model rose from €10 214 million to €10 502 million at the 2016 reporting date:



The two real estate companies opting for the historical cost model in our sample were net investors in 2016, with asset acquisitions totalling €1.2 bn.

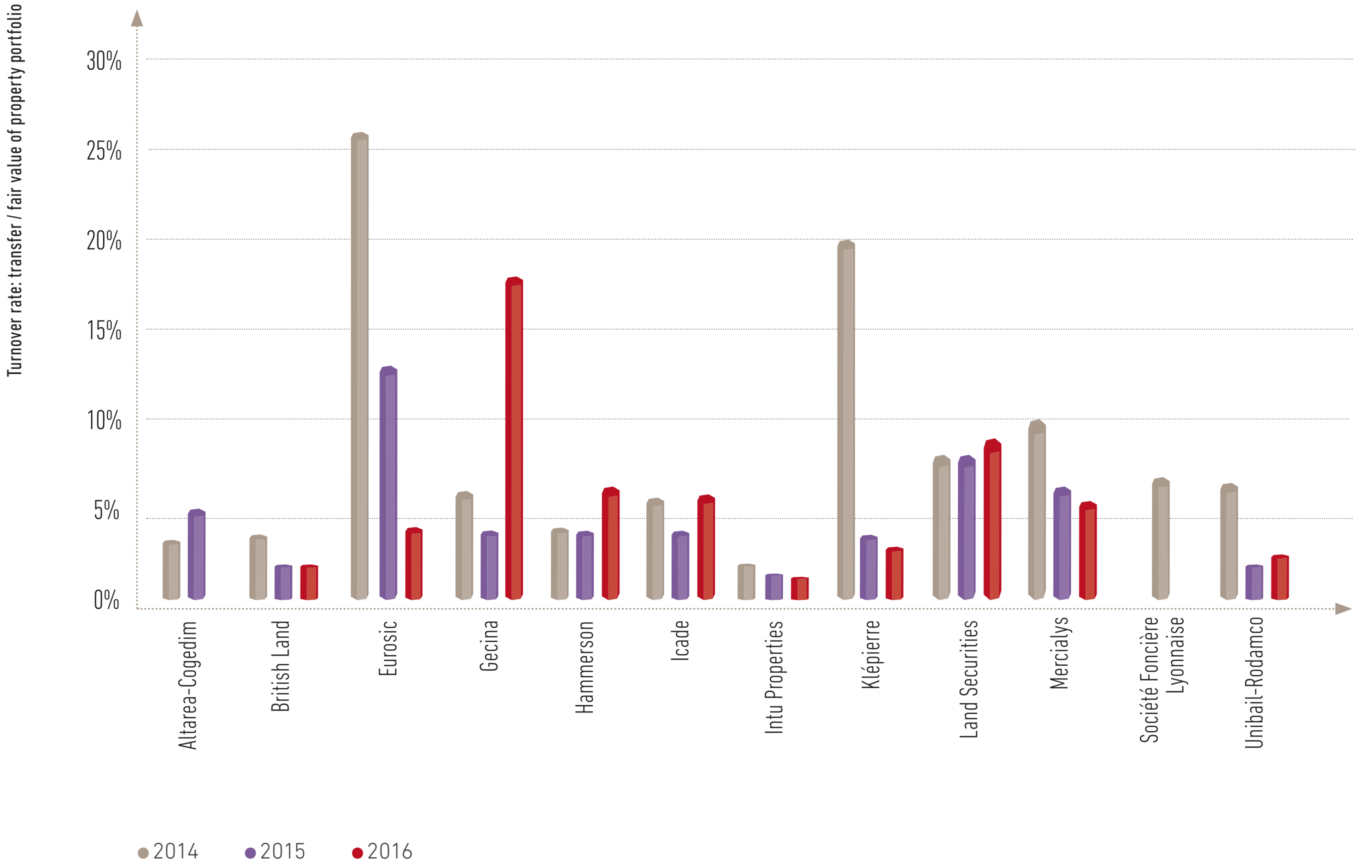
2.3. ASSETS HELD FOR SALE

Criteria for classifying assets under IFRS 5

	Altarea-Cogedim	British Land	Eurosic	Foncière des Régions	Gecina	Hammerson	Icade	Intu Properties	Klépierre	Land Securities	Mercialys	Société Foncière Lyonnaise	Unibail Rodamco
Undertaking to sell	•		•		•				•	•			
Mandate to sell									•				
Management decision	•			•	•		•				•		
Not specified		•				•		•				•	•

Disclosures on IFRS 5 and the classification criteria applied vary substantially between the companies in the sample.

Turnover rate of assets over the past three years



Over the sample, the turnover rate rose slightly between 2015 and 2016, averaging 5% in 2016 compared with 4% in 2015. However, the turnover rate varies widely from one real estate company to another, so it is difficult to analyse a trend within the sample.

Investment market transactions in 2016 were larger than in 2015. The value of disposals in the sample as a whole rose from €5.8 billion in 2015 to €8.3 billion in 2016.

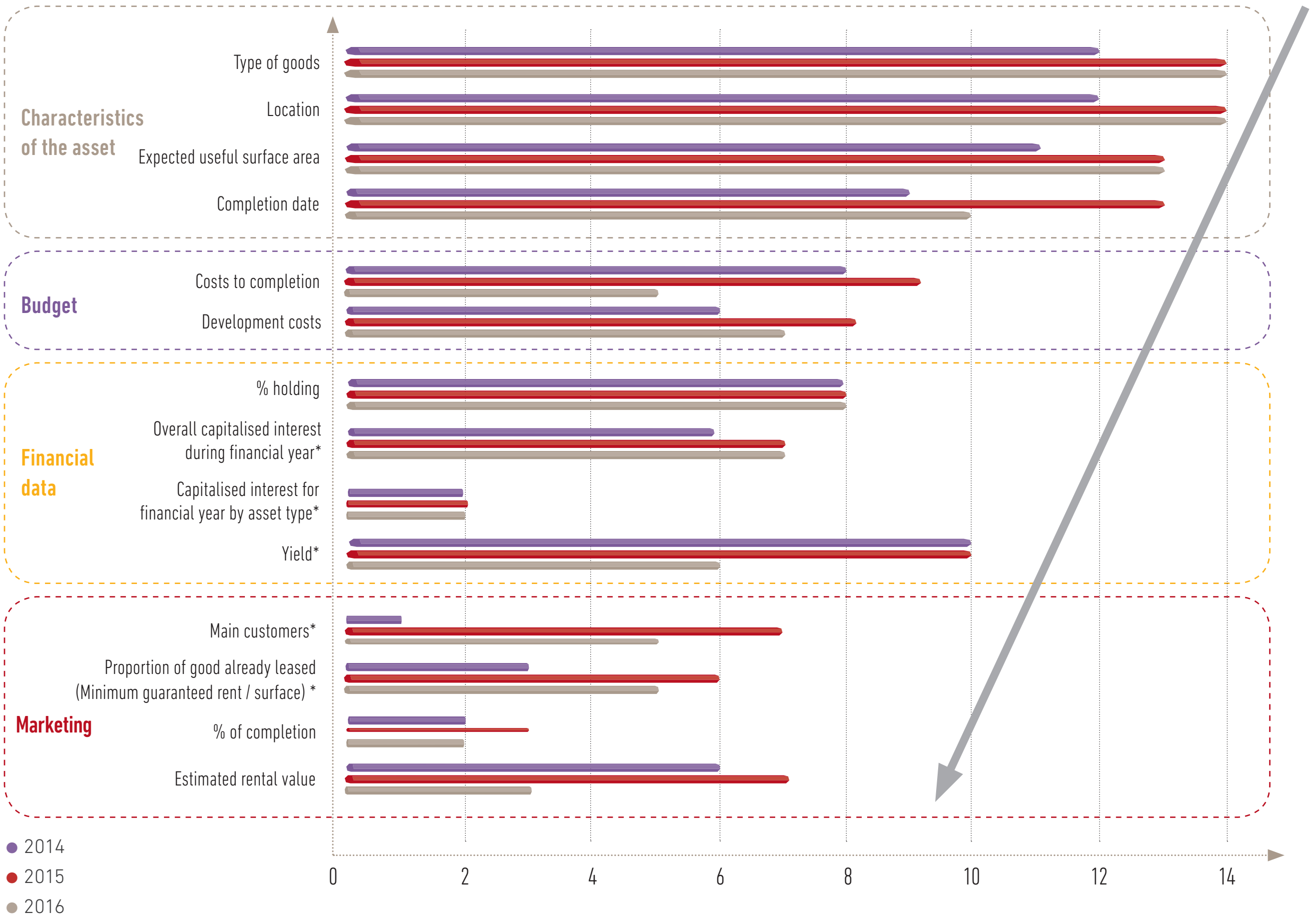
This increase is due in particular to the disposal of the Health assets portfolio for €1.35 bn.

2.4. DEVELOPMENT ASSETS

EPRA recommends entities to provide disclosures on their development assets including:

- the characteristics of the asset;
- costs to completion and development costs;
- financial data, including capitalised interest;
- marketing information.

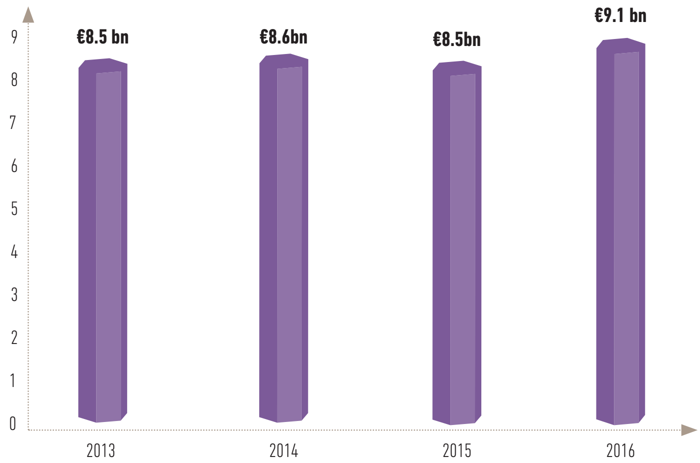
Although reporting on the EPRA criteria for development assets has been more widespread in recent years, some more strategic characteristics are not disclosed by the majority of real estate companies.



(*): Criteria not required by EPRA

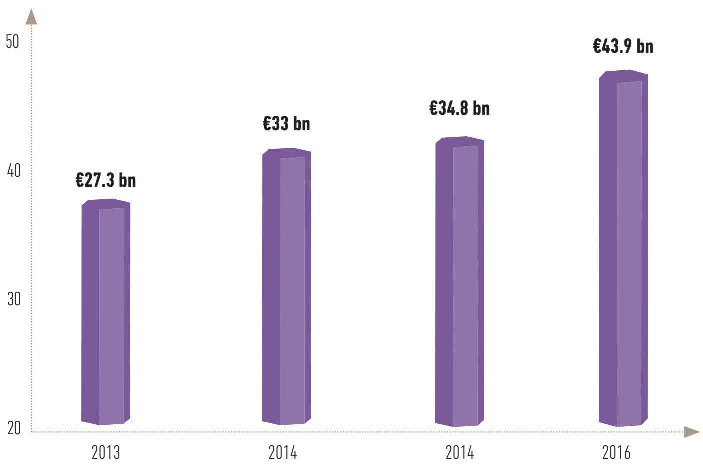
Note that investors find these EPRA criteria very useful when assessing changes in real estate companies' NAV.

DEVELOPMENT ASSETS



Sample: 13 real estate companies provide disclosures on this subject

PIPELINE*



Sample: 10 real estate companies provide disclosures on this subject

* : Committed projects not yet recognised in the financial statements

Development assets are those on which work has already begun, while the pipeline represents amounts not yet committed.

In 2016, all the real estate companies presented disclosures on the total value of their pipeline, but this varied significantly from one company to another, particularly as regards the level of certainty on pipeline projects.

Example of disclosures on the pipeline:

Property development projects

Icade has significant development projects [a] representing a total investment of €1.6 billion and over 300,000 sq.m.

Project name	Location	Estimated date of completion	Floor area	Expected rent	Yield on cost [b]	Total investment [c]	Remaining investment > 2016	Premarketing
Défense 4/5/6	Nanterre Prefecture	T2 2017	15,850	4.6	6.0%	77	7	100%
Millénaire 1	Millénaire business park	T1 2018	29,700	9.9	5.1%	192	14	100%
Urssaf	Pont de Flandre business park	T3 2019	8,600	3.2	7.4%	44	41	100%
Pulse	Portes de Paris business park	T4 2018	28,000	8.9	7.0%	127	101	0%
Bucarest	Rungis business park	T2 2017	2,000	0.2	5.7%	4	3	0%
PROJECTS STARTED			84,150	26.8	6.0%	444	166	64%
Origine	Nanterre prefecture		70,000	28.9	6.1%	474	392	0%
Îlot B2	Portes de Paris business park		39,000	13.9	6.8%	206	178	0%
Îlot B3	Portes de Paris business park		29,000	10.4	7.9%	132	122	0%
Îlot C1	Portes de Paris business park		42,900	14.1	7.3%	194	181	0%
Ottawa	Rungis business park		12,900	3.1	6.0%	51	47	0%
Other projects			**12,150**	**2.1**	**6.1%**	**35**	**34**	**0%**
COMMERCIAL PROJECTS UNDER DEVELOPMENT			205,950	72.5	6.6%	1,091	952	16%
Monaco	Rungis business park		4,160	0.5	4.4%	11	11	0%
B034	Pont de Flandre business park		5,300	1.0	4.3%	23	18	0%
Îlot d	Portes de Paris business park		8,400	2.9	4.7%	62	54	0%
HOTEL PROJECTS UNDER DEVELOPMENT			17,860	4.4	4.6%	97	84	0%
TOTAL PIPELINE			**307,960**	**103.6**	**6.3%**	**1,632**	**1,202**	

(a) *Identified projects on secured plots of land, whether they have started or not.*
(b) *YOC = headline rents / cost of the project as approved by Icade's governance bodies. This cost includes the appraised value of land, cost of works, carrying costs and any lease incentives.*
(c) *Total investment includes the fair value of land, cost of works, lease incentives and finance costs*

Excerpt from the 2016 Annual Report – Icade

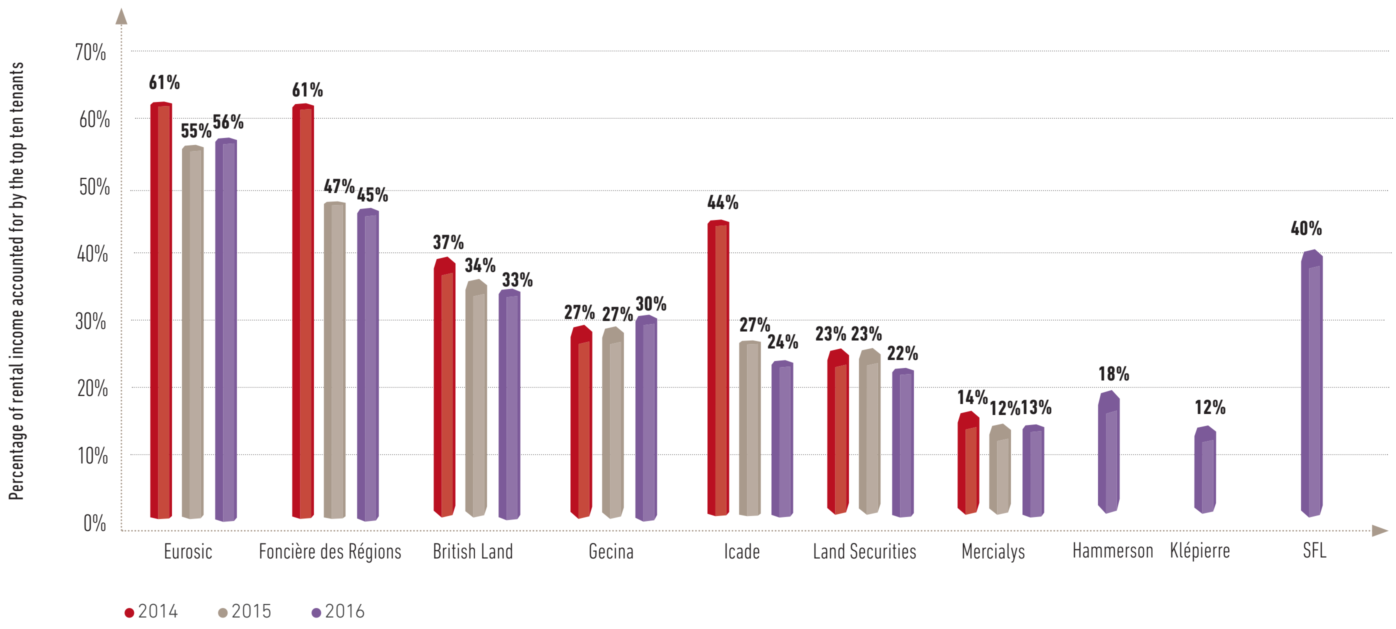
2.5. CONCENTRATION OF TENANTS

REAL ESTATE COMPANIES FOCUSED ON THE OFFICE PROPERTY MARKET

	Eurosic	Foncière des Régions	Gecina	Icade	Land Securities	Société Foncière Lyonnaise
Percentage of rental income accounted for by the top ten tenants	56%	45%	30%	24%	22%	40%
No of clients representing more than 5% of rental income	N/A	2	N/A	1	1	N/A
List of main tenants' names	Top 10	Top 17	N/A	TOP 35	Top 12	N/A

REAL ESTATE COMPANIES FOCUSED ON RETAIL CENTRES

	Altarea-Cogedim	British Land	Hammerson	Intu Properties	Klépierre	Mercialys	Unibail-Rodamco
Percentage of rental income accounted for by the top ten tenants	N/A	33%	18%	NC	12%	13%	N/A
No of clients representing more than 5% of rental income	N/A	3	0	N/A	N/A	2	N/A
List of main tenants' names	N/A	Top 41	TOP 10	N/A	Top 10	N/A	N/A



We have observed an increase in real estate entities' disclosures on the concentration of their tenants. 10 of the 13 companies in the sample now present disclosures on the percentage of rental income contributed by their main tenants. 70% of them (seven companies) list their major tenants by name.

Those providing disclosures tend to be real estate companies focused on office property. They often have fewer tenants, and hence are more dependent on them. The trend towards diversification seems to be continuing, reducing the potential risk of overexposure to one counterparty. Clients representing more than 5% of rental income are also increasingly uncommon.

The weight of the 10 main clients varies very significantly between company types, reflecting a real diversity in terms of strategy.

Example of disclosure on concentration of tenants:

Top ten tenants

Table 98

Ranked by passing rent at 31 December 2016

Proportionally consolidated excluding premium outlets	Passing rent £m	% of total passing rent
B&Q	12.6	3.2
H&M	9.1	2.3
Next	8.9	2.3
Inditex	8.7	2.2
Dixons Carphone	5.8	1.5
Marks&Spencer	5.7	1.4
Home Retail Group	5.6	1.4
Boots	5.5	1.4
Arcadia	5.3	1.4
Debenhams	5.1	1.3
Total	**72.3**	**18.4**

Excerpt from the 2016 Annual Report – Hammerson

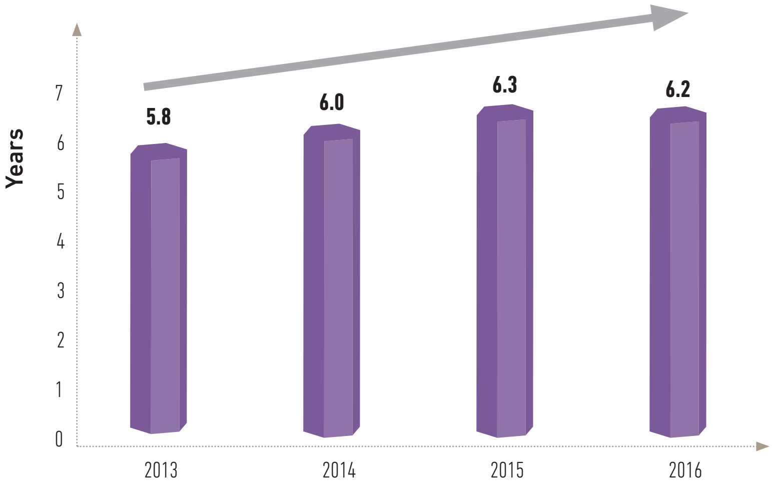
2.6. DISCLOSURES ON LEASES

Continuing last year's trend, we found improved disclosures on leases, with more real estate companies reporting on maturity, geographical and segment breakdown, and break options.

The graphic below shows that the average residual lease duration has remained stable since 2015.

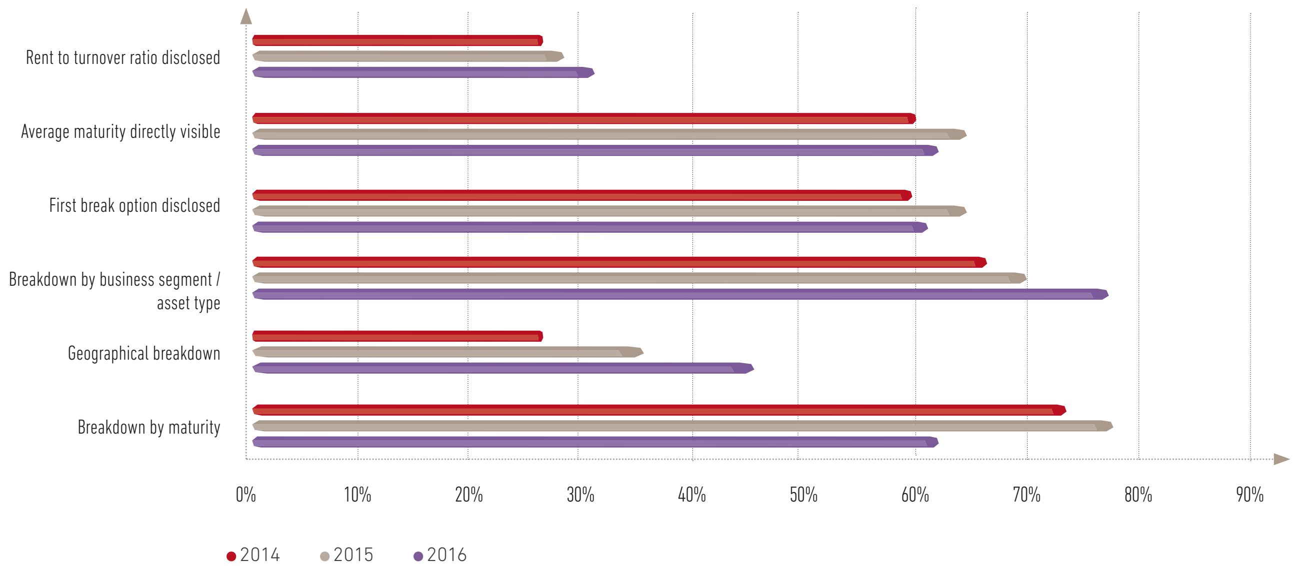
The average residual lease duration could be calculated from the table of lease expirations for four of the five real estate companies that fail to provide this information directly.

AVERAGE RESIDUAL DURATION OF LEASES (fixed duration leases)



The graphic below shows that 62% of the sample give directly visible information on the average residual lease duration, and 69% mention break clauses. Finally, 31% of the sample present the estimated rent to turnover ratios of their customers. These percentages have remained stable since 2015.

The main development since last year is the improvement in disclosures on the geographical and segment breakdown of leases – two more real estate companies now provide this information. The number of entities providing a breakdown by lease maturity is unchanged.



Example of disclosures on the average residual duration of leases:

2.1.6.3 Shopping center lease expiry schedule

Country/Area	≤ 2017	2018	2019	2020	2021	2022	2023	2024	2025+	TOTAL	Average lease length left
France	21.6%	5.8%	8.2%	8.9%	10.9%	12.0%	9.7%	8.4%	14.5%	100.0%	4.5
Belgium	1.9%	1.4%	9.9%	1.2%	1.1%	3.3%	61.5%	5.8%	13.9%	100.0%	6.3
France-Belgium	**20.9%**	**5.6%**	**8.3%**	**8.6%**	**10.5%**	**11.7%**	**11.8%**	**8.3%**	**14.5%**	**100.0%**	**4.5**
Italy	**18.6%**	**9.6%**	**14.2%**	**12.5%**	**12.1%**	**9.7%**	**6.7%**	**2.0%**	**14.7%**	**100.0%**	**4.3**
Denmark											
Norway	19.0%	21.5%	20.4%	12.6%	11.8%	3.0%	3.1%	2.4%	6.2%	100.0%	3.2
Sweden	19.0%	19.5%	21.0%	14.6%	8.6%	7.2%	2.3%	1.4%	6.4%	100.0%	2.4
Scandinavia	**19.0%**	**20.6%**	**20.7%**	**13.5%**	**10.4%**	**4.9%**	**2.7%**	**2.0%**	**6.3%**	**100.0%**	**2.8**
Spain	6.4%	7.7%	10.0%	8.3%	11.4%	9.1%	5.0%	7.6%	34.5%	100.0%	7.3
Portugal	19.0%	5.7%	7.5%	9.6%	17.3%	11.1%	2.3%	7.0%	20.6%	100.0%	5.0
Iberia	**9.2%**	**7.3%**	**9.4%**	**8.6%**	**12.7%**	**9.5%**	**4.4%**	**7.4%**	**31.5%**	**100.0%**	**6.8**
Poland	34.6%	5.9%	7.3%	22.7%	13.1%	2.0%	1.0%	2.4%	11.0%	100.0%	3.5
Hungary	16.2%	21.7%	16.1%	21.9%	16.6%	0.3%	2.3%	2.2%	2.7%	100.0%	3.7
Czech Republic	25.9%	16.3%	8.4%	8.4%	19.5%	7.5%	4.0%	1.1%	9.1%	100.0%	3.3
Turkey	26.1%	19.8%	11.5%	11.1%	8.5%	5.6%	8.0%	0.6%	8.7%	100.0%	3.3
CEE and Turkey	**26.9%**	**15.3%**	**10.3%**	**15.4%**	**13.8%**	**4.2%**	**4.1%**	**1.5%**	**8.5%**	**100.0%**	**3.4**
The Netherlands	**35.9%**	**10.7%**	**14.8%**	**4.6%**	**6.3%**	**9.7%**	**2.8%**	**4.0%**	**11.3%**	**100.0%**	**3.6**
Germany	**4.9%**	**19.0%**	**10.3%**	**1.2%**	**9.2%**	**29.8%**	**4.8%**	**4.9%**	**15.8%**	**100.0%**	**5.4**
TOTAL	**19.3%**	**10.2%**	**11.8%**	**10.2%**	**11.2%**	**10.2%**	**7.4%**	**5.0%**	**14.7%**	**100.0%**	**4.4**

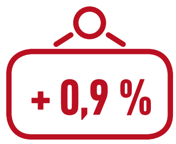
Excerpt from the 2016 Annual Report – Klépierre

2.7. DISCLOSURES ON RENTS

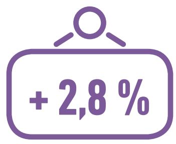
Like-for-like rental values in the retail segment continue last year's trend, with a rise of +2.8%

We noted a return to growth for like-for-like rental values in real estate companies active in the office property segment, with a rise of 0.9%.

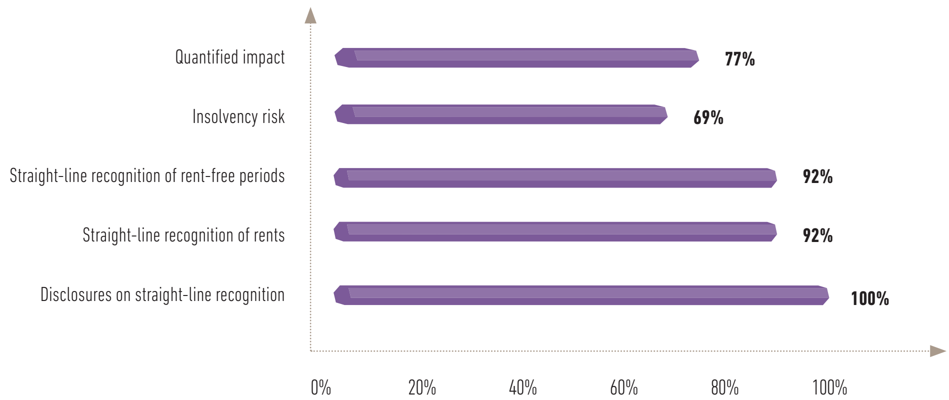
Companies focusing on office property



Companies focusing on retail



Straight-line recognition of rents and lessee incentives



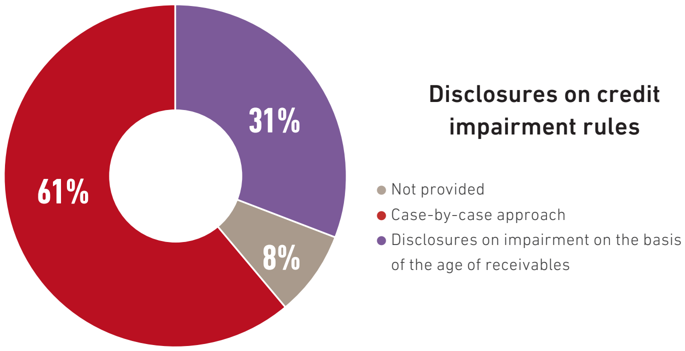
IAS 17 states that step rents, rent-free periods and other incentives granted to tenants shall be recognised on a straight-line basis over the fixed lease term during which the customer has no right of termination.

All the real estate companies in the sample provided disclosures on the straight-line recognition of their rental revenues. Further, in accordance with IAS 17, 12 of the 13 real estate companies have opted to account for rent-free periods and other lessee incentives on a straight-line basis, and 10 quantify the impact. Nine real estate entities also made disclosures on the insolvency risk of tenants, mainly covered by a prior analysis of their capacity for payment.

2.8. DISCLOSURES ON CREDIT IMPAIRMENT RULES

12 of the 13 real estate companies made disclosures on the rules for credit impairment.

They impair their receivables either by conducting a case-by-case analysis, or on the basis of their age.



Example of disclosures on the rules of credit impairment:

3.5.3.4. Operating receivables

Receivables are recorded for the initial amount of the invoice, after deduction for impairment valued on the basis of the risk of non-recoverability. The cost of non-recoverability risk is posted under property expenses.

Rent receivables are systematically written down according to the due date of the receivables and situation of the tenants.

An impairment rate is applied to the amount excluding tax of the receivable minus the security deposit:

- tenant has left the property: 100%;
- tenant in the property:
  - receivable between 3 and 6 months: 25%,
  - receivable between 6 and 9 months: 50%,
  - receivable between 9 and 12 months: 75%,
  - over 12 months: 100%.

Impairment thus determined is adjusted to take account of particular situations.

Excerpt from the 2016 Annual Report – Gecina

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost.

The Directors exercise judgement as to the collectability of trade receivables and determine if it is appropriate to impair these assets. Factors such as days past due, credit status of the counterparty and historical evidence of collection are considered.

Excerpt from the 2016 Annual Report – Intu Properties

3. FINANCING STRATEGIES

3.1 Sources of financing

3.2 Debt structure

3.3 Analysis of bond issue spreads

3.4 Changes in LTV ratio

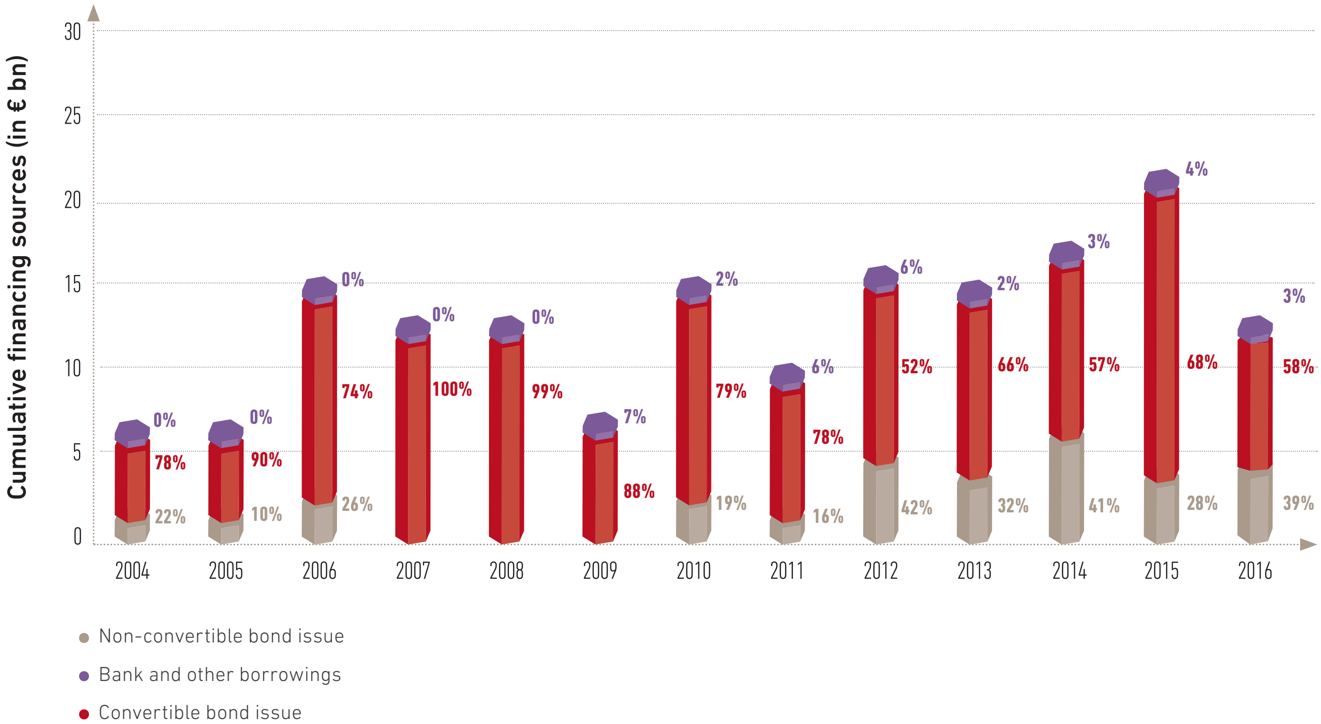
3.5 Average cost of debt

3.6 Average maturity of debt

3.7 Average hedging ratio

3.1 SOURCES OF FINANCING

CHANGE IN CUMULATIVE FINANCING SOURCES (IN €BN)



Unlike in the past three years, the amount of financing raised has contracted sharply, returning to close to the 2013 level of €15 billion.

The two preceding financial years had recorded exceptionally high levels of fund-raising, profiting from extremely low rates. During the 2016 financial year, real estate companies in our sample were primarily concerned to optimise their existing financing arrangements, extending the maturity of low-rate borrowings contracted in previous years, while maintaining a high level of new financing.

These two features of the financing policy of real estate companies resulted in a historically low average cost of 2.6% (see section 3.5).

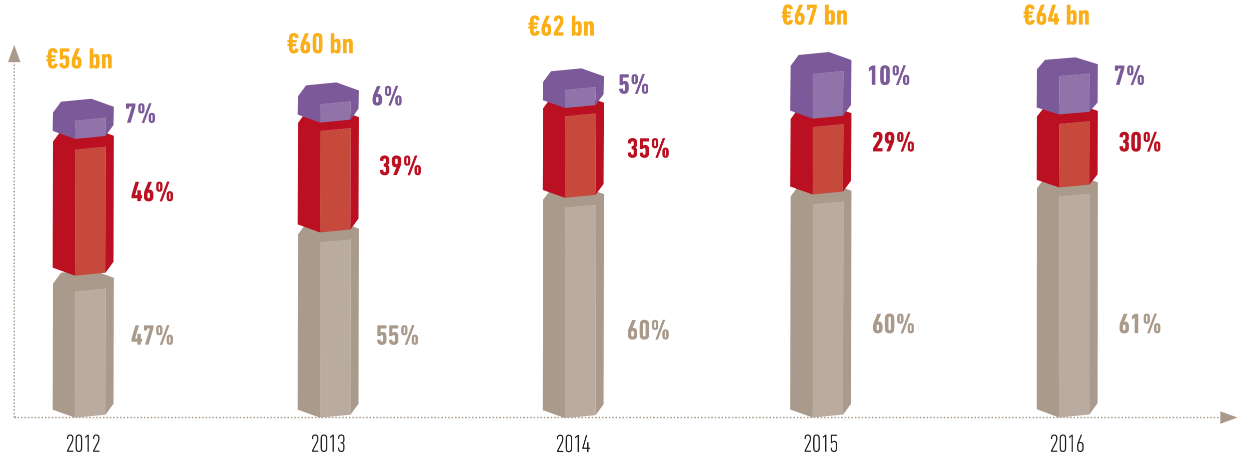
In terms of credit lines, the concept of raising financing in the disclosures of real estate companies does not necessarily correspond to drawings, but to authorisations.

5.9.2.17. Green Bond issue of €500 million

On 9 May 2016, the Company issued a Green Bond of €500 million with investors. This issue of 5,000 bonds of €100,000 maturing in May 2026 offers a coupon of 1.875%, or a spread of 137 basis points. This bond issue will finance or refinance office assets under development or recently delivered and benefiting from HQE certification (minimum target of 9/14) or BREEAM certification (Very Good as a minimum).

Excerpt from the 2016 Annual Report – Foncière des Régions

3.2. DEBT STRUCTURE

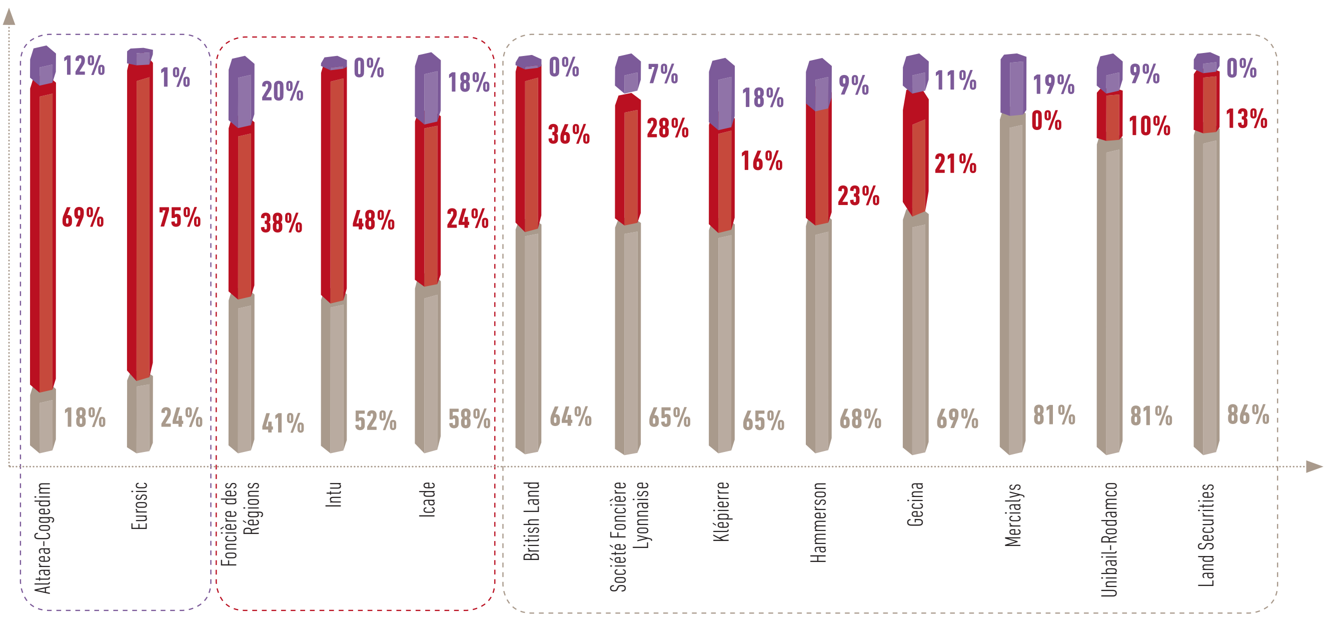


- Bonds
- Bank borrowings / mortgages
- Other (commercial papers, property finance lease, etc.)

Debt structure is unchanged since 2015 in terms of the proportion of bank borrowings/mortgages and bonds.

Note the still-high level of use of treasury bills, up from €4.8 bn to €5.1; Klépierre, Unibail-Rodamco and Foncière des Régions together represent more than two-thirds of this amount.

The proportion of bonds is unchanged at 61% with wide disparities between companies in the sample (from 18% to 86%).



- Bonds
- Bank borrowings / mortgages
- Other (Commercial papers, property finance lease, etc.)

Bond proportion above 60%
Bond proportion between 40% and 60%
Bond proportion below 25%

In our sample of real estate companies, three debt strategies can be distinguished, depending on their access to the market. This access is directly correlated with their market capitalisation, and with the assets they have available.

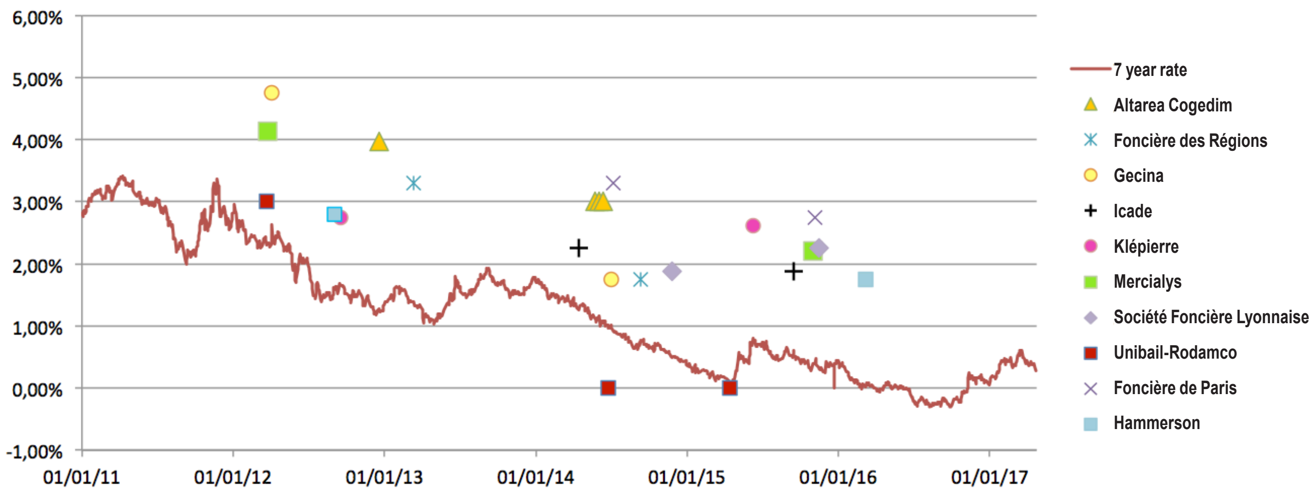
Real estate companies with less than 25% of their debt in bonds have market capitalisations of less than €2.5 bn. Similarly, the real estate companies with less than 60% of their debt in bonds have market capitalisations of less than €5 bn.

Mercialys and SFL are the exceptions, with very easy access to the debt market and more than 65% of their debt structure in bonds despite market capitalisations of below €2.5 bn. Hammerson also breaks the rule, with 68% of its debt in bonds despite market capitalisation of €5.3 bn.

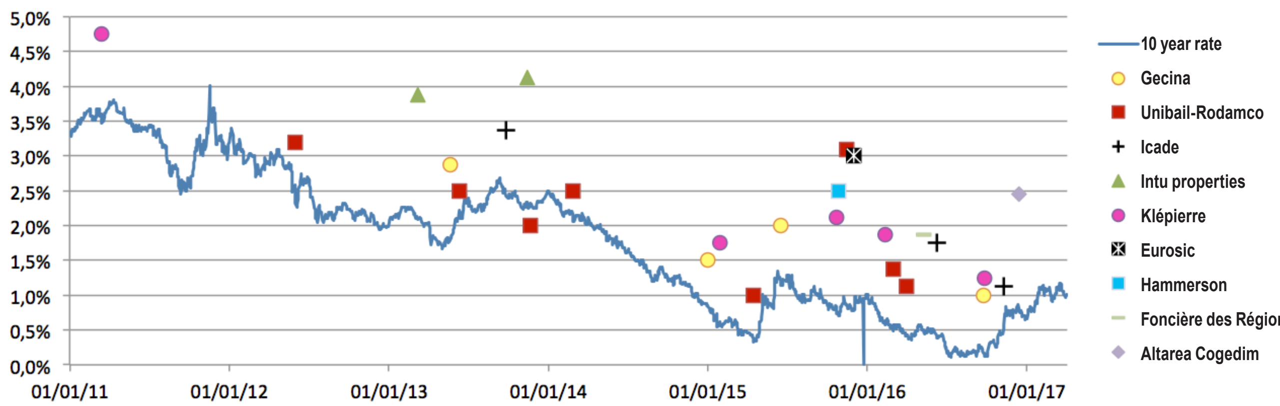
3.3. ANALYSIS OF BOND ISSUE SPREADS

We have presented bond issue rates since 2011 according to maturity.

OAT 7 years



OAT 10 years

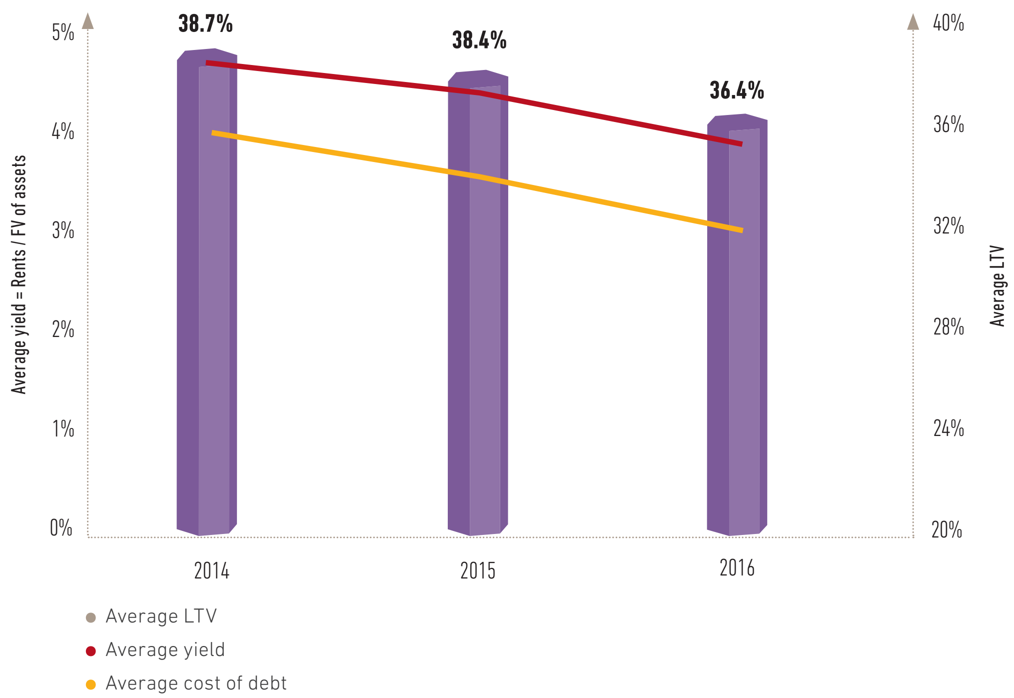


Bond spreads continue to differ widely from one issuer to another. They mainly depend on the issuer's rating. In a low-rate context, the top-rated real estate companies have benefited the most from a fall in spreads.

During 2016, there were new issues from Unibail-Rodamco, Klépierre, Gecina, Icade, Foncière des Régions, Altarea-Cogedim and Hammerson. The typical issue is €500m over 10 years with an average rate of 1.54%.

3.4. CHANGES IN LTV RATIO

All the real estate companies in the sample disclose their LTV ratio (Loan To Value).



We observed an improvement in the key funding ratios.

The overall level of LTV has fallen significantly compared with previous years, in line with the yield on assets, reaching 36.4%.

However, we also observed a greater diversity of individual LTV ratios, ranging from 24.7 % to 47% in 2016 (32%-45% in 2015).

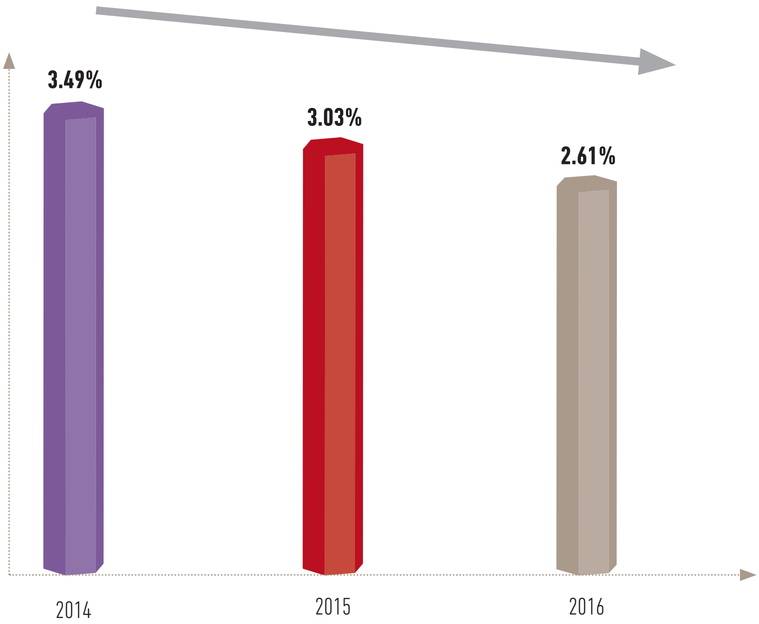
The reduction in LTV level is not uniform across all real estate companies, since three of them have taken advantage of rate levels to increase their LTV in 2016.

Proportionally consolidated loan to value (LTV)

	2016 £m	2015 £m
Proportionally consolidated loan to value (LTV)	**32%**	35%
Principal amount of gross debt	**5,217**	5,404
Less debt attributable to non-controlling interests	**(128)**	(200)
Less cash and short term deposits	**(353)**	(300)
Plus cash attributable to non-controlling interests	**9**	10
Total net debt for proportional LTV calculation	**4,745**	4,914
Group property portfolio valuation (note 10)	**10,111**	9,509
Share of property of joint ventures and funds (note 10)	**4,937**	4,714
Other investments (note 12)	**142**	379
Less other investments attributable to joint ventures and funds	**(4)**	(123)
Less property attributable to non-controlling interests	**(400)**	(546)
Total assets for proportional LTV calculation	**14,786**	13,933

Excerpt from the 2016 Annual Report – British Land

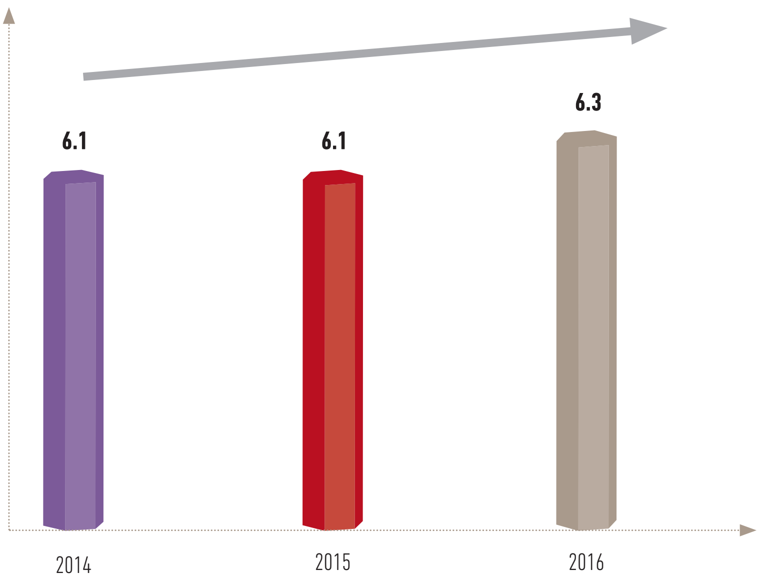
3.5. AVERAGE COST OF DEBT



All the companies in the sample have maintained or reduced this rate since last year.

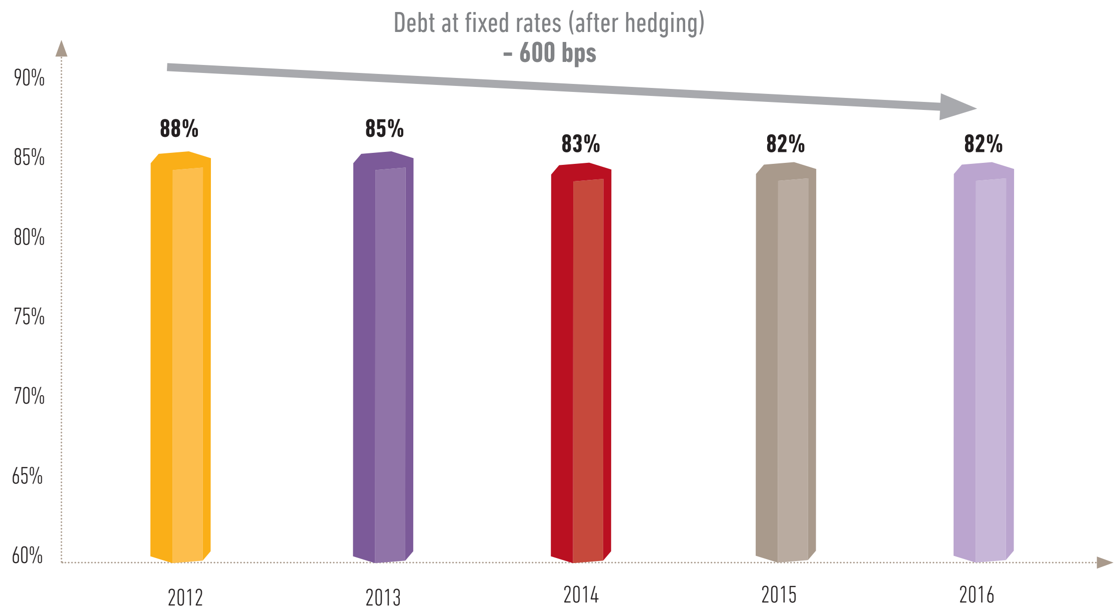
The average cost of debt is stable or down for 12 of the 13 companies, and as was the case last year, it remains highest for English entities, in line with their issue maturities.

3.6. AVERAGE MATURITY OF DEBT



Over 2016, real estate companies have continued the dynamic management of their liabilities. Thus, the average maturity of debt has been kept at more than six years for the whole sample.

3.7. AVERAGE HEDGING RATIO



12 of the 13 real estate companies in the sample provide disclosures of their interest rate hedging arrangements, without consistently specifying its calculation. We have observed an average rate of 82%. This rate is unchanged since 2015.

The hedging ratio varies from one real estate company to the next, but lies consistently above 60%. Since last year, individual hedging ratios have changed as follows:

- seven real estate companies have increased their hedging ratio;
- four real estate companies have decreased their hedging ratio;
- two real estate companies have not changed their hedging ratio, or have failed to report it.

Real estate companies are trying to hedge against a rise in interest rates. The improvement in recurrent results in recent years is due to the improvement in the financial result.

Mercialys is primarily a fixed-rate borrower *via* the bond market. As part of its debt optimization strategy, the Group dynamically manages its interest rate hedging policy, in particular through fixed/floating rate operations and by resetting part of its debt at a fixed interest rate.

The interest rate policy was adjusted in December 2015 after the Euro 200 million bond issue of November 2015. Mercialys' debt structure as at December 31, 2016 is as follows: 64% fixed-rate debt and 36% floating-rate debt. This structure is in line with the commitments made by Mercialys under bank facility agreements, since the Company has to hedge at least 55% of its debt against interest rate fluctuations.

Excerpt from the 2016 Annual Report – Mercialys

CONCLUSION

The standardisation of financial reporting among listed real estate companies has continued in recent years, not least in response to the use of EPRA's key indicators. This has facilitated the comparability of performance for these companies.

Last year's findings remain valid today. While reporting on financing strategies seems adequate overall, the calculation methods for LTV or ICR ratios may not be disclosed, or diverge from one company to the next. Further, the level of information on some aspects of the asset portfolio could be improved: for example, by providing disclosures on the characteristics of development assets and the sensitivity testing of appraisal values.

Our next edition will be sure to look at developments in the financial reporting of listed real estate companies in these respects, and at the treatment of business combinations. This is because, against a background of market scarcity of prime assets, the major players are tending to operate by means of merger, taking full advantage of their financing capacities.

Pursuing the creation of value and synergies, the trend towards concentrations in the listed real estate company sector is likely to continue.

NOTES

NOTES

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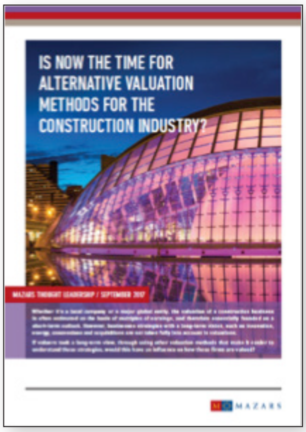

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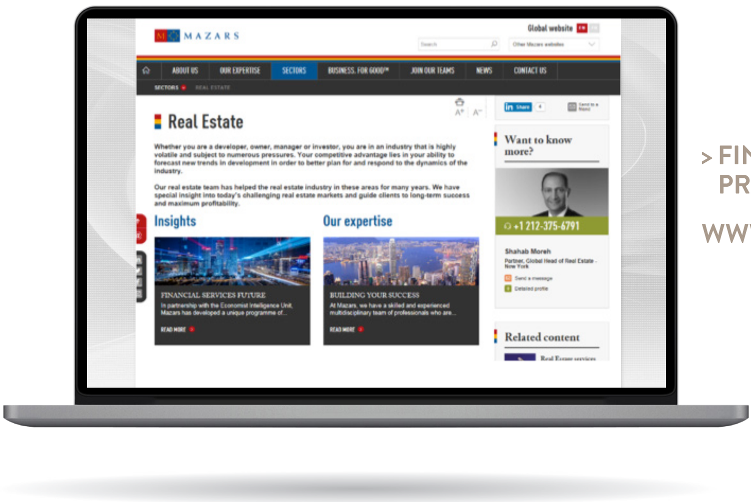

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Thanks to:

Marie Martins,
Regional Director, Head of Transaction Management at Jones Lang LaSalle France

With the contribution of Julie Lefer, Senior and Rim Skalli, Senior

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